HSBC Continental Europe

Universal registration document and Annual Financial Report 2021

HSBC

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Presentation of information

This universal registration document was filed on 23 February 2022 with the *Autorité des Marchés Financiers ('AMF')*, as the competent authority under Regulation (EU) n°2017/1129, without prior approval in accordance with Article 9 of that Regulation.

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

AUTORITÉ
DES MARCHÉS FINANCIERS
AMF

Declaration (Annex II – 1.2)

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Reference to the Registration Document

This document, named Universal Registration Document, refers to the Registration Document (Annual Report and Accounts) filed with the *AMF* on 24 February 2021 under reference number D.21-0075.

Cautionary statement regarding forward-looking statements

This *Universal Registration Document 2021* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group. Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', and variations of these words and similar expressions should be considered as 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 are only pertinent as of the date they are made. HSBC Continental Europe makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

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

Disclaimer about translation

The translation in English of the *universal registration document and annual financial report 2021*, filed with the *Autorité des Marchés Financiers ('AMF')* on 23 February 2022 under reference number D.22-0053, is an accurate and faithful translation of the French version, with the exception of errors or translation discrepancies that may not constitute significant omissions or inaccuracies within the meaning of Article 212-3 of the *AMF* General Regulations.

The annual financial report is a translation into English of the official version of the Universal Registration Document issued in French and prepared in XHTML format, available on the website of the issuer.

Highlights

	31 Dec 2021	31 Dec 2020	31 Dec 2019
For the year (€m)			
Profit/(loss) before tax (reported basis)	**285**	(945)	(22)
Profit/(loss) before tax (adjusted basis)[1]	**531**	(331)	240
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)[2]	**2,363**	2,121	2,227
Profit/(loss) attributable to shareholders of the parent company (reported basis)	**269**	(1,022)	(39)
At year end (€m)			
Total equity attributable to shareholders of the parent company	**7,667**	7,434	8,443
Total assets	**222,664**	237,099	237,680
Risk-weighted assets	**47,795**	46,113	48,051
Loans and advances to customers (net of impairment allowances)	**59,612**	56,225	56,956
Customer accounts	**70,144**	61,393	57,550
Capital ratios %			
Common equity tier 1	**12.0**	12.6	13.5
Tier 1	**13.6**	14.2	15.0
Total capital	**16.5**	17.3	16.9
Performance, efficiency and other ratios (annualised %)			
Annualised return on average shareholders' equity[3]	**3.6**	(12.5)	(0.5)
Pre-tax return on average risk-weighted assets (adjusted basis)	**1.1**	(0.7)	0.5
Cost efficiency ratio (adjusted basis)[4]	**77.6**	102	83.5
Liquidity Coverage Ratio ('LCR')	**145**	143	152
Net stable Funding Ratio ('NSFR')[5]	**130**	136	127

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 13 to 17.*
2 *Net operating income before change in expected credit losses and other credit and other credit risk provisions is also referred to as revenue.*
3 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
4 *Adjusted cost efficiency is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit and other credit risk provisions (adjusted).*
5 *Computed in respect of Capital Requirements Regulation ('CRR II') guidelines.*

Performance highlights

HSBC Continental Europe's performance in 2021 reflected a return to profitability, supported by the benefits of the economic recovery for our clients, and the early impact of our business transformation. Growth in our Global Banking ('GB') and Commercial Banking ('CMB') businesses demonstrated the strength of our global franchise and reinforced our ambition to become the leading international wholesale bank in Continental Europe. In support of this strategy, HSBC Continental Europe announced the signing of a Framework Agreement for the planned sale of its retail banking activities in France in November 2021.

Reported consolidated profit before tax was EUR 285 million, up from a loss of EUR 945 million in 2020 that included exceptional cost items of EUR 758 million and an unfavourable PVIF (Present Value of In Force long-term insurance business) movement of EUR 123 million, compared with a favourable movement of EUR 187 million in 2021.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 2,363 million, up from EUR 2,121 million in 2020. The increase was driven by a favourable PVIF movement in Life Insurance (EUR 187 million, compared with an unfavourable movement of EUR 123 million in 2020) and strong growth in revenues in Global Banking, as well as increased revenues in Commercial Banking. The increase was partly offset by losses related to the repositioning of Markets and Securities Services ('MSS'). Asset Management and Life Insurance benefitted from favourable market conditions and robust client activity, while the overall performance of Wealth and Personal Banking ('WPB') continued to be impacted by persistently low interest rates.

Reported change in expected credit losses and other credit impairment charges was a charge of EUR 33 million, compared with a charge of EUR 289 million in 2020. The decrease in the cost of risk reflected the improvement in the current economic environment and the forward outlook.

Reported operating expenses were EUR 2,046 million, down from EUR 2,777 million in 2020. The decrease was due to the non-recurrence of prior year exceptional items (the impairment of tangible and intangible assets for EUR 500 million and restructuring costs for EUR 258 million), lower depreciation and amortisation and lower staff costs. The decrease was partly offset by transformation related costs and contributions to the Single Resolution Fund ('SRF') which increased by EUR 38 million compared with the prior year.

Reported profit attributable to shareholders of the parent company was EUR 269 million in 2021, compared with a loss of EUR 1,022 million in 2020.

Presentation of activities and strategy

About HSBC Group

With assets of USD 3.0 trillion and operations in 64 countries and territories at 31 December 2021, HSBC Group is one of the largest banking and financial services organisations in the world. Approximately 40 million customers bank with HSBC and the Group employs around 220,000 full-time equivalent staff. HSBC Group has around 187,000 shareholders in 128 countries and territories.

HSBC Group's purpose and ambition

Our purpose is 'Opening up a world of opportunity' and our ambition is to be the preferred international finance partner for our clients.

HSBC Group's values

Our values help define who we are as an organisation, and are key to our long-term success.

We value differences

Seeking out different perspectives.

We succeed together

Collaborating across boundaries.

We take responsibility

Holding ourselves accountable and taking the long view.

We get it done

Moving at pace and making things happen.

HSBC Group's strategy

The Group is implementing our strategy at pace across the four strategic pillars aligned to our purpose, values and ambition announced in February 2021:

Focus on our strengths: in each of our global businesses, the Group will focus on areas where we are strongest and have significant opportunities for growth.

Digitise at scale: the Group will focus its investments in areas such as technology, to improve our customers' experience while ensuring security and resilience. These investments in technology will also help drive down costs, including through automating our middle and back offices and building solutions to free up office footprint.

Energise for growth: the Group is moving to a leaner and simpler organisation that is energised and fit for the future. The Group aims to inspire a dynamic culture and champion inclusion across our organisation, as well as help employees develop future skills.

Transition to net zero: the Group's ambition is to support the transition to a net zero global economy. The Group has set out an ambitious plan to become a net zero bank, to support customers in their transition, and to unlock new climate solutions.

About HSBC Bank Plc

With assets of GBP 597 billion at 31 December 2021, HSBC Bank plc is one of Europe's largest banking and financial services organisations. HSBC Bank plc employs around 15,000 people across its locations. HSBC Bank plc is the parent company of HSBC Continental Europe.

HSBC in Europe

Europe is an important part of the global economy, accounting for nearly 40 per cent of global trade and one quarter of global Gross Domestic Product.

In addition, Europe is the world's top exporter of services and second largest exporter of manufactured goods (UNCTAD, 2020).

HSBC operates in 20 markets in Europe. HSBC Bank plc is responsible for HSBC's European business (aside from United Kingdom ['UK'] retail and most commercial banking activity which, post ring-fencing, are managed by HSBC UK Bank plc), facilitating trade within Europe and to other countries where the HSBC Group has a presence. HSBC Bank plc is organised around the principal operating units detailed below:

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

HSBC Continental Europe comprises our Paris hub and its European Union ('EU') branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden). We are creating an integrated Continental European bank anchored on Paris to better serve our clients and simplify our organisation;

HSBC Germany Holdings GmbH serves the EU's largest economy and one of the leading export nations globally. HSBC Germany's business proposition mirrors the importance of trade and global connectivity. In February 2021, the HSBC Group completed the acquisition of 100 per cent of the shares in HSBC Germany Holdings GmbH.

HSBC Bank Plc's strategy

HSBC Bank plc's strategic vision is to be the leading international wholesale bank in Europe, focused primarily on clients that value our network with a focus on transactional banking and financing. This is complemented by a targeted wealth and personal banking business (see our global businesses on page 6).

HSBC Bank plc exists to open up opportunities for our customers by connecting them to international markets. Europe is the largest trading region in the world and Asia is Europe's biggest and fastest growing external trading partner (UNCTAD, 2020). HSBC Bank plc is uniquely positioned to capitalise on this opportunity and play a pivotal role for the Group as the largest generator of outbound revenues to Asia.

About HSBC Continental Europe

HSBC in Continental Europe

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

HSBC Continental Europe has a clear and focused strategy that is consistent with the HSBC Group's strategy: building the leading international wholesale bank in Continental Europe.

HSBC strategy implemented in France and Continental Europe

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

Focus on our strengths

Be the leading international wholesale bank in Continental Europe

HSBC Continental Europe is building a leaner, simpler bank with a sharper strategic focus and an ambition to grow, leveraging HSBC Group's industry leading positions in transaction banking, trade, capital markets and financing. We also intend to support Europe's ambition to be at the forefront of international efforts to fight climate change, becoming a market leader in sustainable financing, achieving net zero in the Group's operations and supply chain by 2030 or sooner, and aligning the Group's financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner.

We are simplifying our operating structure. In response to the requirement for an Intermediate Parent Undertaking ('IPU') in line with EU Capital Requirements Directive for European Union banking entities ('CRD V'), we are planning to acquire HSBC Trinkaus & Burkhardt AG ('HSBC Germany'), HSBC Bank Malta plc, and HSBC Private Bank (Luxembourg) SA. HSBC Germany would then be transferred into a newly created branch of HSBC Continental Europe in Germany. This legal entity restructuring remains subject to regulatory approvals for which the process has now started.

The planned sale of our retail operations in France

Following the announcement in June 2021 regarding the planned sale of our French retail operations, a binding Framework Agreement was signed between HSBC Continental Europe and Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA (the 'Purchaser') and My Money Bank ('MMB') on 25 November 2021. My Money Group, MMB and the Purchaser are under the control, directly or indirectly, of funds and accounts managed or advised by Cerberus Capital Management L.P. We have also entered into several other agreements with MMB, in particular with a view to ensuring continuity of service for our retail banking clients who hold asset management products with HSBC Global Asset Management (France) and HSBC REIM, and protection and life insurance products from HSBC Assurances Vie (France).

This step marked the start of an implementation process expected to complete in the second half of 2023, subject to obtaining the authorisation of the competent financial, government and regulatory bodies. Until such point, the business remains part of, and will be managed by HSBC Continental Europe. See Note 1.3 on page 193 for further financial information on the transaction.

We are also conducting a strategic review of our operations in Greece.

The transformation of our Private Banking operations

We intend to establish a Paris branch of HSBC Private Bank (Luxembourg) SA, from which French clients would be served. The project is in execution and is expected to complete in the second half of 2022, subject to obtaining the authorisation of the competent financial, government and regulatory bodies. Given the enhanced product range that will be available to clients and the high quality of the infrastructure in place in Luxembourg, the new operating model will allow us to enable the delivery of the full HSBC offering to our European Private Banking clients.

Digitise at scale

HSBC Group is continuing to invest in technology to help deliver excellent customer service and to enable higher productivity across our organisation. To improve how we serve our customers, we are accelerating the roll-out of our best-in-class digital platforms globally. Within our own operations, we are increasing the usage of the Cloud in our production services and building modern, resilient architecture to ensure scale and resilience.

Within Global Liquidity and Cash Management ('GLCM') in Europe, we are enhancing our digital functionality for our clients during this time of accelerated change. Within our HSBCnet channel, we have introduced a soft token, enabling authentication with mobile, providing a cheaper, simpler, stronger and a more flexible alternative to a security device.

GLCM plans to protect and grow its customer base by enhancing existing payments and liquidity capabilities in target markets.

Global Trade and Receivable Finance ('GTRF') Europe intends to build upon HSBC's leadership in trade finance whilst driving sustainable and profitable growth.

Our ambition is to make trade safer, faster and easier, by taking steps to simplify and digitise the client experience, upgrade our infrastructure, and connect customers to technology partners. We aim to continue to invest in the future of trade by further developing our capabilities across key areas such as real-time credit decisioning, buy-now pay later solutions and sustainable trade finance.

In Foreign Exchange, we further enhanced our electronic trading infrastructure to provide improved risk management to our clients. Our focus is to support customers' FX and cross-border payment needs through improved pricing tools and e-trading.

Please refer to section 'Investing in digital to better support customers' in page 66 for further information.

Energise for growth

In February 2021, we committed to energising our people through active engagement in a more effective, agile and empowered organisation. Since then, we have been engaging colleagues through numerous initiatives to enable them to apply our purpose and values in how we work and how we serve our customers.

Inspire a dynamic culture

We are inspiring a dynamic, inclusive and connected culture, and empowering our people by helping them develop future skills.

We are committed to fostering a supportive environment with a focus on mental health and wellbeing, supporting our staff who want to adopt flexible and alternative ways of working. We have also launched 'Boost Your Future' webinars, available to all HSBC Continental Europe employees, in support of our aim of creating an organisation built around a shared culture collaboration.

Champion inclusion

We have a strong commitment to increase diverse representation across our organisation (e.g. achieve more than 35 per cent of female senior leadership by the end of 2025), raising awareness on the importance of diversity in our governance committees as well as in our Diversity and Inclusion observatories, working closely with our Employee Resources Group ('ERG'). Actions have been undertaken during the second half of 2021: (i) we have made available two specific trainings on 'Mental Health' and 'Inclusive Leadership';

(ii) we are working with 50/50 Partner of Balance to develop an engaging gender diversity charter alongside other large financial institutions through *Financi'Elles*;
(iii) we have set qualitative objectives of awareness-raising actions alongside 50/50 Partner of Balance on the theme of cultural diversity; (iv) on top of our legal requirements in every country, we are committed to contributing to the HSBC Group's pilot project on the development of a cross-functional disability policy in all areas (accessibility, customer offer, adjustments and retention in employment, recruitment and mobility, etc.); and (v) we will keep working with our local Pride ERG (in France, Ireland, Switzerland, Italy, and Luxembourg), and the newly-created European Pride ERG to support an inclusive environment through sensitisation of our employees on these topics through different events, including during Pride month and in staff exchanges.

Develop future skills

In HSBC Continental Europe, the Future Skills programme is now fully in place. During the second half of 2021, various actions have been taken to promote Degreed, an integrated training platform, and encourage our staff to adopt new learning habits, notably through the development of 'Focus4' learning curriculum (articles, videos and HSBC University's content). We have also set up a programme named 'Resilience' to help our staff and managers navigate through our transformation. It comprises well-being workshops, inspirational conferences and peer discussions to encourage an inclusive and dynamic culture.

Please refer to key performance indicators and targets regarding Human capital in page 54 and to section 'An inclusive and responsible HR strategy' in page 67 for further information.

Transition to net zero

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. HSBC Continental Europe shares this ambition and wants to help governments and businesses achieve their aims of developing a sustainable future for all.

Becoming a net zero bank

In 2020, HSBC set out ambitions to be net zero in our operations and supply chain by 2030 or sooner, and to align our financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. At the Group's 2021 Annual General Meeting, a special resolution on climate change – proposed by the HSBC Holdings Board – was backed by shareholders.

It includes an ambition to set up sector-based targets, publishing a thermal coal phase-out policy and reporting annually on progress.

HSBC Continental Europe aims to be net zero in its own operations and supply chain by 2030 or sooner. In 2021, greenhouse gas emissions per FTE is 0.48 tonnes equivalent CO2. In Continental Europe, we are continuing our net zero journey assessing our exposure to thermal coal at 0.21 per cent of our total loan book for HSBC Continental Europe at year end 2021.

Supporting our customers

HSBC Group aims to provide USD 750 billion to USD 1 trillion of sustainable financing and investments by 2030 to help our customers transition to lower carbon emissions. HSBC Continental Europe supports its clients, including corporates, individual clients and financial institutions and investors, in transitioning to a low carbon economy, through the deployment of dedicated products and services. We have a dedicated origination team which works with our Commercial Banking customers to structure sustainable finance transactions, including through green and impact lending. This helps HSBC Continental Europe to align its financing and investment portfolio to the standards set by the Paris Agreement. In the last two years, HSBC Continental Europe has contributed USD 42.6 billion to this target led by strong performance from debt capital markets, representing 34 per cent of Group's cumulative sustainable finance and investments. In 2021, HSBC Continental Europe also strengthened its '5E' multi-partnership one-stop shop in France, in order to support its corporate clients in their sustainable journey, towards energy efficiency and low-carbon transition, duty of care and Corporate Social Responsibility ('CSR') strategy with EcoVadis, EY, Economie d'Energie, Eco-Act and Ethifinance.

Unlocking new climate solutions

HSBC Group partnered with the World Resources Institute and WWF to form the Climate Solutions Partnership with the aim to accelerate support for innovative solutions tackling climate change. HSBC Continental Europe is fully involved in this programme through two nature-based projects located in France. The first one, *Les Ilots d'Avenir* (Islands of the future), in partnership with French National Forestry Office ('ONF') – *Agir Pour La Forêt* aims to adapt forest genetic resources to climate change conditions in eastern France forest areas to improve tree resilience and carbon capture. The second project, Living Soils, developed with Earthworm Foundation, aims to accelerate the transition to sustainable agriculture by developing regenerative agricultural practices and monitoring soil conversion and carbon capture in the Hauts-de-France region.

HSBC Group also launched a Business Plan for the Planet campaign to help business transition to a sustainable model, issuing leadership content around carbon neutrality, Environmental Social and Governance ('ESG') and Agrofood. These topics were illustrated with client case studies, content articles, videos and infographics published on our websites, media partnerships and social media. We also engaged on live sessions webinars series with HSBC experts, clients and partners to help small and medium companies transition.

Please refer to section 'Sustainability' in page 54 for further information.

Our Global Businesses

The Group manages its products and services through its three global businesses: Global Banking and Markets ('GBM'), which is further split into three reportable segments MSS, GB, and GBM Other[1], Commercial Banking ('CMB'), and Wealth and Personal Banking ('WPB'); and the Corporate Centre (comprising certain legacy assets, central stewardship costs, and interests in our associates and joint ventures). These segments are supported by Digital Business Services, and 11 global functions, including Risk, Finance, Compliance, Legal, and Human Resources.

Global Banking and Markets ('GBM')

Markets & Securities Services ('MSS')

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

[1] Reflecting the reorganisation of the GBM management structure during the year

We offer clients a range of services and capabilities across asset classes and geographies, supported by dedicated sales, traders and research teams.

Our European teams play a key role in providing cross-asset services, bridging Emerging and Developed Markets, and collaborating with other global businesses to provide clients across the Group with bespoke products and solutions that support their growth ambitions. HSBC Continental Europe plays a key role as the Group's strategic platform for euro-denominated rates products, being primary dealer in all European debts, and has extended its risk management capacities, in particular to Equities products with European stocks.

We continue to invest in technology and digital transformation to enhance client experience, improve operational efficiencies and future proof the business.

Global Banking ('GB')

GB delivers tailored financial solutions to major government, corporate and institutional clients worldwide, opening up opportunities through the strength of our global network and capabilities. We provide a comprehensive suite of services including corporate banking, capital markets, issuer services, advisory, trade services and global liquidity and cash management.

Operating across all HSBC Continental Europe markets, our teams take a client-centric approach bringing together relationship and product expertise to deliver financial solutions customised to suit our clients' growth ambitions and financial objectives. We work closely with our business partners including MSS, WPB and CMB, to provide a range of tailored products and seamless services that meet the needs of clients across the bank.

GB in HSBC Continental Europe operates as an integral part of the global business and contributes significant revenues to other regions through our client base in Continental Europe, supporting our ambition to be the leading international wholesale bank.

Priorities for GB in Continental Europe are to be positioned as a top bank in key advisory and financing mandates and help clients seize international growth opportunities, leveraging its expertise and global network.

GBM Other

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

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

Commercial Banking ('CMB')

We have a clear strategy to be the Leading International Corporate Bank in Europe. We help to connect our European customers to our international network of relationship managers and product specialists; supporting their growth ambitions and targets. Our products, which are designed to help our customers seize growth opportunities, range from term loans to region-wide treasury and trade solutions. CMB is at the centre of creating revenue synergies within the Group: we collaborate closely with our GB and MSS colleagues to provide expertise in capital finance and advisory solutions to support our CMB clients. Our trade teams within CMB also provide import and export finance solutions to GB and MSS clients. We also enable customers to gain visibility over their liquidity positions, which in turn helps clients to unlock efficiencies in their treasury structures. As the European economy pivots to a net-zero carbon economy, we are expanding our services and products to provide customers with innovative sustainable finance solutions and ensuring our relationship managers are informed to match these to our clients' net-zero ambitions.

CMB in Continental Europe has simplified its operations to help improve customer experience, and along with the repositioning of capital resources to our strategic clients, this will support the delivery of value back to HSBC Group.

Wealth and Personal Banking ('WPB')

In France and Greece, WPB helps approximately 930,000 customers with their financial needs through Retail Banking, Wealth Management, Insurance, Asset Management and Private Banking. HSBC Continental Europe offers a full range of products and services to meet the personal banking and wealth management needs of customers from personal banking to ultra-high net worth individuals.

Our core retail proposition offers a full suite of products including personal banking products, such as current and savings accounts, mortgages and unsecured loans, credit cards (only applicable in Greece), debit cards and local and international payment services. Alongside this, WPB offers various propositions, including Jade, Premier, and Fusion, as well as wealth solutions, financial planning and international services. Customer experience has significantly improved over the recent years, driven by an improved distribution model with high specialisation, increased reachability, as well as enhanced online and mobile platforms offering a steadily increasing scope of services and products.

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

A binding Framework Agreement was signed between HSBC Continental Europe and Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA (the 'Purchaser') and My Money Bank ('MMB') on 25 November 2021, regarding the planned sale of HSBC Continental Europe's retail banking business in France. In addition to the planned retail sale, we intend to establish a Paris branch of HSBC Private Bank (Luxembourg) SA, from which French clients would be served. We are also conducting a strategic review of our operations in Greece.

Supporting our stakeholders through Covid-19

The Covid-19 outbreak continues to create a great deal of uncertainty and disruption for the people, businesses and communities we serve around the world. It is affecting everyone in different ways, with markets at different stages of the crisis.

We are tailoring our response to the different circumstances and situations in which our stakeholders find themselves.

Customers

The Covid-19 outbreak continues to generate significant challenges for our customers worldwide. Our immediate priority is to do what we can to provide them with support and flexibility. This has included offering payment relief, assisting our customers to restructure their balance sheets and providing access to local government lending schemes. We continued to grant new loans under the French Government guarantee scheme and HSBC specific schemes. At 31 December 2021, lending under customer relief programmes stood at EUR 4 billion.

Business continuity and high service quality have been ensured throughout the period, with most of our retail branches remaining open (following strict health guidelines protecting our customers and employees) and enhanced technology to enable them to interact with us through digital tools (e-signature, video calls, webinars). Please refer to section 'Customer relief programme' in page 134 for further information.

Employees

The Covid-19 outbreak tested our employees in many ways and they adapted quickly to the fast-changing environment. We are continuing to prioritise our colleagues' safety, welfare and development.

We also digitised a number of our welfare tools to support our colleagues' mental, physical, social and financial health. We anticipate progressing to a hybrid operating model that will empower our colleagues to maintain flexible working practices. In France, a new agreement has been signed on working from home and a remote working campaign was launched in May 2021 for employees to choose their remote working options. It illustrates our commitment to new and more flexible ways of working with the Future of Work strategy.

Specific training and events have taken place to inform our employees and managers on the new hybrid organisation. In some of our European Economic Area ('EEA') branches, we are currently implementing hybrid working policies, supporting Covid-19 regulation requirements in countries and safeguarding our employees' health (e.g. providing vaccination services). Please refer to section 'An inclusive and responsible HR strategy' on page 67 for further details.

Regulators and governments

We have continued to engage with regulators and governments in Europe, regarding the policy changes issued in response to the Covid-19 outbreak, to help our customers and to contribute to an economic recovery.

OPENING UP
A WORLD OF OPPORTUNITIES

OUR HISTORY

1894 — Creation of Banque Suisse et Française
- Founded by Ernest Méjà and Benjamin Rossier
- Developed as a commercial bank in France
- Adopted the name Crédit Commercial de France in 1917 following the merger with Maison Aynard et Fils and Caisse de Crédit de Nice

1900-2000 — Development of CCF
- Grew externally through the acquisition of other banks in the first half of the century
- Expanded the number of branches (200+) during the sixties

2000-10s — Building a strong universal French bank
- HSBC Group acquired CCF in 2000 and listed on the Paris Stock Exchange after the purchase
- Established a strong platform in one of the main European markets in the Eurozone
- CCF SA became HSBC France on 1 November 2005, rebranding its operations as HSBC

2018-20 — Fulfilling our European mission
- From HSBC France to HSBC Continental Europe following the UK departure from the European Union (client migration, product setup, and legal entity restructuring)
- Ambition to be the leading international wholesale bank in Europe, focused primarily on clients that value our network

2021 — Repositioning our activities
- Focus our wholesale activities on strategic international clients with cutting-edge and relevant product proposition, especially on transactional banking and financing
- Agreement on the planned sale of our French retail operations

2022-25 — Towards growth…
- Become the Group's chosen entity for the Intermediate Holding Company ('IPU')
- Fully integrated international wholesale bank in Continental Europe
- Supporting growth of our international corporate and institutional clients

OUR VALUES

WE VALUE DIFFERENCES
Seeking out different perspectives

WE SUCCEED TOGETHER
Collaborating across boundaries

WE TAKE RESPONSIBILITY
Holding ourselves accountable and taking the long view

WE GET IT DONE
Moving at pace and making things happen

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

OUR RESOURCES

- **940,000+ clients**[1] from personal banking clients to large corporates
- **c. 7,500 employees**[2] supporting our customers through our expertise and know-how
- **Future Skills** and **Resilience** programmes

- **127 years** of expertise in
- **Presence in 11 countries**, supporting clients across borders
- **AA- / A1 / A+ top ratings** from the three main rating agencies

- **14 ESG themes**[3] applying to all financing activities
- **Sustainable multi-partnerships**[4] with 5 experts in ESG*
- Set up of the **Sustainable Finance origination and structuration** team

- **2,081 IT apps**[5] consumed, of which 74% are Group applications
- **New headquarters**[6] chosen for its eco-responsible qualities
- Well-established **Business Continuity Incident Management** programme

- **€2,363m** reported net banking income
- **12.0% CET1 ratio** with a solid financial structure
- **€223bn** total assets

OUR COMMITMENTS

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

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

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

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

Financial Crime
Help protect the integrity of the global financial system.

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

1. c. 928,000 customers in WPB (c. 835,000 in France including Insurance, c. 93,000 in Greece), c. 16,000+ mastergroups in CMB and GB (vs. legal entities considered last year within CMB)
2. c. 6,400 FTES in France and c. 1,100 FTEs in the EEA branches
3. 4 risks related to banking activity, 3 involving human capital, 7 involving governance risks
4. Economie d'Energie, EcoVadis, EcoAct, Ethifinance, EY
5. 1,549 apps consumed from the Group, 532 apps owned in the country (higher than prior year due to the integration of the EEA branches)
6. 38 avenue Kléber, Paris opened in March 2021, having received BREEAM and BBC Effinergie certifications, with an exceptional HQE rating

* Only applies to France geographical perimeter

HSBC | HSBC Continental Europe

OPENING UP A WORLD OF OPPORTUNITIES

OUR ADDED VALUE FOR CLIENTS

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

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

Transaction Banking
Providing products to help clients trade and invest internationally

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

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

OUR PRODUCTS & SERVICES

GB

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

- Corporate Banking
- Advisory, Capital Markets & Issuer Services
- Trade, Global Liquidity and Cash Management services

MSS

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

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

GBM – Other

GBM Other comprises activities that are outside of the perimeter of MSS and GB, primarily:

- **Principal Investments** that comprises investments in third prty private equity funds and legacy direct investments
- GBM's share of the Bank's **Markets Treasury** function

CMB

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

- Working capital, term loans
- Payment services and Trade facilitation
- Advisory & financial markets

WPB

In Continental Europe, we serve our customers – from **individuals** to **high net worth families** – with their financial needs through:

- Private Banking
- Retail Banking, including short and long-term financing
- Wealth Management
- Insurance
- Asset Management

OUR IMPACT

1 Sustainable Finance

$42.6bn contribution to Group's sustainable finance 2030 ambition[1]

+87% net new money in responsible investment funds year on year

2 Environmental Footprint

0.21% exposure to coal in our loan book

331 tonnes* waste production

0.48 teq CO_2* greenhouse gas emissions by FTE

3 Conduct

98% of staff completed training on Conduct and Financial Crime risk

72% of **suppliers** signed the code of Conduct in the renewal process

4 Governance & Security

Remediation completed on 2019 AFA[2] report

98% controls assessed effective and compliant

1 cybersecurity incident over the last 12 months

5 Client Satisfaction

2nd Best Traditional Bank for Students[3]

6.8 / 10 **satisfaction rate*** given by CMB clients

+60 NPS[4,*] for the Retail Customer Relations Centre

6 Employability & Diversity

34% take-up rate[5,*] in development programmes

7% attrition rate[6,*] in our talent pool*

30% share of women[7,*] in senior executive positions

1. Cumulative contribution to Group target since 2020 of USD 42.6bn representing 34% of total Group progress (in its ambition to provide between USD 750 billion and USD 1,000 billion in financing and investment)
2. Agence Française Anti-corruption
3. Prix Selectra in 2021
4. Net Promoter Score ('NPS'): assessed performance across the HSBC Group (Retail Customer Relations Centre being assessed here)
5. Target: achieve 55% take-up rate for employee development programmes open to all on a voluntary basis
6. Target: achieve an employee attrition rate of 7% or lower
7. Target: reach 35% women in senior leadership roles by the end of 2025

* Only applies to France geographical perimeter

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Geopolitical, economic and regulatory background and outlook

Economic background

Global

Global economic activity has significantly recovered in 2021, after its sharp contraction recorded in 2020 due to the Covid-19 crisis. This rebound has been driven by the reopening process observed in most developed countries on the back of the significant progress in vaccination campaigns. However, this reopening process has not been linear because different parts of the world have been hit during the year by successive waves of Covid-19, driven by new variants (Delta and Omicron in particular). Even if these waves had generally a more limited economic impact than in 2020, they still weighed on the global recovery, which has been erratic and unequal. The global recovery has led to a restricted access to commodities and some components (e.g. microchips), reflecting a constrained supply unable to expand sufficiently to match the strong rise in demand. Many countries have faced hiring difficulties due to a lack of skilled workers in some sectors but also a limited pool of available workers for low-paid jobs or jobs with difficult work conditions. All in all, these supply constraints have led to a sharp rise in inflation in several countries, a trend reinforced by the sharp recovery in energy prices.

The US economic recovery has been strong, driven by expansionary fiscal policy support (with an additional stimulus plan of about USD 1.9 trillion voted in March 2021). In a context of higher commodity prices, the rise in goods prices stemming from supply bottlenecks has been especially pronounced, notably due to car prices. Hiring difficulties have pushed up wage pressures for the less skilled jobs, which has supported services prices. Consequently, US inflation jumped to 7.0 per cent year-on-year in December 2021, against 1.4 per cent at the start of the year. As a response, the US Federal Reserve ('Fed') began to reduce its pace of asset purchases in September 2021 and has stepped up this tapering process in December 2021, which should lead to the end of these asset purchases in March 2022. This Fed turn could open the door to a rate hike at that time, in line with the Federal Open Market Committee median forecasts which indicate more than three rate hikes of 25 basis points for the whole year. Central banks in other developed countries such as the UK, Norway and New Zealand have also adopted a more restrictive bias, which have started to raise their policy rates due to upside risks on inflation.

The economic background has been less buoyant in Asia, where several countries have continue to implement a virus elimination strategy. In Mainland China, this policy explains in large part the relatively slower consumption recovery. Tightening rules in property markets have also weighed on growth, both via construction and via negative indirect effects on consumption. Chinese Growth Domestic Product ('GDP') decelerated to 4.0 per cent year-on-year in the fourth quarter of 2021, against 6.4 per cent one year ago. This softening in the Chinese economy has been a negative factor for other emerging economies. In Mainland China, low inflation opened the door to easing policy measures from the central bank ('PBoC'), both to support credit quantity (cuts in reserve requirements ratios for banks) and to lower financing cost (cuts in policy rates).

Eurozone

We have seen the same evolution in Europe. Eurozone GDP rose by 0.5 per cent quarter-on-quarter in the fourth quarter of 2021, eliminating the gap with its pre-pandemic level. France has fared even better as its GDP is now 0.9 per cent above its pre-pandemic level. This recovery has also led to a marked drop in unemployment. For example, French employment returned above its pre-pandemic level in the third quarter. Moreover, leading indicators for the fourth quarter have not signalled a marked collapse in economic activity, in spite of the emergence of the Omicron variant at the end of the year. Eurozone inflation picked up sharply, reaching 5.0 per cent year-on-year in December 2021 (according to the flash estimate) versus 0.9 per cent at the start of the year (3.4 per cent after 0.8 per cent for France according to the EU harmonised measure). This trend led the European Central Bank ('ECB') to adopt a less accommodative tone during the year. The ECB Governing Council decided to reduce its pace of asset purchases under the emergency pandemic program ('PEPP') and announced the end of net purchases for this program by the end of March 2022.

Economic outlook

The uncertainty driven by Covid-19

At the start to 2022, the two main sources of uncertainty for the global economy are the Omicron variant and the high level of inflation. The Omicron variant has led to a sharp rise in new cases in the world, especially in Europe and in the US. Nonetheless, the latest data have confirmed that in case of infection, this variant was less likely to lead to severe cases than the Delta variant. This could therefore limit the magnitude of the restriction measures required to reduce the risk of overburdening hospitals. The impact on activity should be more driven by disturbances caused by rising absenteeism at work on the back of self-isolation for infected people and people being in contact. However, if this Omicron wave proves eventually to be relatively short, as it was the case in South Africa, the impact on growth could be limited in the end. That said, risks of emergence of new variants more dangerous than Omicron cannot be excluded.

Inflation and central banks' actions

Inflation in developed countries should start to decline during 2022, thanks to base effects on energy prices. Upside pressure on goods prices should also ease thanks to the gradual unwinding of supply bottlenecks. Nevertheless, uncertainties on the inflation outlook remain high and further upside surprises in the coming months cannot be ruled out.

Against that backdrop, central banks should continue to tighten their monetary policy, in order to limit risks of slippage in inflation expectations and risks of wage-price spiral emerging. Gradual rate hikes are expected in the short term in particular in the US and in the UK. The ECB should be more cautious but it could open the door to rate hikes in the fourth quarter of 2022 if inflation is not falling more quickly. This gradual monetary tightening should not stop the economic recovery, especially if we take into account the fact that States should not start to consolidate fiscal policy in spite of the sharp rise in public debt levels caused by the pandemic. That said, risks linked to monetary policies remain significant. It cannot be excluded that central banks will have to accelerate the pace of rate hikes if inflation continues to surprise on the upside, which would raise the risk of economic hard landing. Conversely, if inflation falls more quickly than expected, monetary tightening already implemented by central banks could prove to be excessive in the end and lead to the return of a deflationary environment.

Regulatory environment

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 measures related to customer support, operational capacity and amendments to the Risk Weighted Assets ('RWAs'), capital and liquidity frameworks which are now being gradually removed.

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

In France, the High Council for Financial Stability (Haut Conseil de Stabilité Financière or 'HCSF') decided to maintain the Countercyclical Buffer rate at its current level of 0 per cent in December 2021, but intends to normalise it to its pre-crisis level at its next meeting in March 2022. In light of the Covid-19 pandemic, the planned raise from 0.25 per cent to 0.50 per cent in April 2020 was cancelled, being lowered to 0 per cent instead.

The Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') completed the Basel III Reforms in July 2020 when it published the final revisions to the Credit Valuation Adjustment ('CVA') framework. In October 2021, the European Commission ('EC') published a first draft of the rules implementing the reforms in the EU ('CRR3' or 'CRD6'). The rules will now be subject to an extensive negotiation process with the EU Council and Parliament before they are finalised.

The EC has proposed an implementation date of 1 January 2025 with an output floor phased-in until 2030. The draft rules include some significant deviations from the Basel III Reforms. These include:

(i) when calculating the output floor, a more beneficial approach to the risk weighting of unrated corporates and for high-quality mortgages on a transitional basis as well as an improved calibration of the standardised approach for counterparty credit risk ('SA-CCR');

(ii) while it is proposed that the output floor will apply at the highest level of consolidation, it will also apply to lower levels of consolidation via a reallocation mechanism;

(iii) on the credit risk side, a new strategic investment category benefitting from a more favourable treatment and a phase-in for credit conversion factors of unconditionally cancellable commitments. It is also proposed that the SME and infrastructure supporting factors are maintained;

(iv) the retention of the option to neutralise the impact of past losses on operational risk RWAs;

(v) the retention of the exemptions from the CVA capital charges that currently apply;

(vi) options to mitigate the impact and timing of implementation of the new market risk framework, should other jurisdictions make amendments.

The EC's proposals also enhance the focus on ESG risks with the European Banking Authority's ('EBA') report on a dedicated prudential treatment being brought forward by two years to 2023 and banks required to identify, disclose and manage ESG risks at an individual level.

ESG related risks and disclosures requirements

In November 2021, the ECB published a report on its supervisory review of banks' approaches to manage climate risk in which it concludes that banks are not close to meeting its expectations on climate risk and that progress is slow. An updated report is expected in the first quarter of 2022 with additional feedback from the ECB. A full review will occur in 2022 alongside the ECB's stress test on climate-related risk.

Article 8 of the EU's Taxonomy Regulation requires undertakings, including banks, to report how and to what extent their activities qualify as environmentally sustainable. These disclosures will be made for the first time in early 2022 based on December 2021 data.

In January 2022, the EBA published its final draft Implementing Technical Standard ('ITS') on Pillar 3 disclosures on ESG risks. The ITS introduced a set of templates on qualitative and quantitative data which requires the disclosure of prudential information on ESG risks, transition and physical risks. The first disclosures will be made in early 2023 based on December 2022 data. Please refer to section 'EU Taxonomy economic performance indicators' in page 78 for further information.

Other developments

In August 2021, the EU adopted technical standards on the contractual recognition of stay powers for contracts governed by third-country law. Subsequently, the EU also adopted standards on the impracticability of recognition of bail-in powers for the same type of contracts. Finally, the EU adopted an ITS for banks to notify the above to their supervisory authorities.

In September 2021, the EBA published its final guidelines to assess breaches of the Large Exposure limits which applied from 1 January 2022.

In November 2021, the EBA published its final draft Regulatory Technical Standards ('RTS') specifying the types of factors and conditions to be considered for the assessment of the appropriateness of risk weights and of minimum loss given default values for real estate exposures Furthermore, in December 2021, The EBA published its final draft RTS on credit risk adjustment for defaulted exposures under the standardised approach, which now take into account discounts for banks buying non-performing loans.

Also in November 2021, the EBA published its final draft ITS on the Interest Rate Risk in the Banking Book ('IRRBB') Pillar 3 disclosures. Furthermore, in December 2021, it launched three consultations specifying technical aspects of the IRRBB revised framework. The EBA is consulting on its guidelines on IRRBB and credit spread risk arising from non-trading book activities, as well as on technical standards on the IRRBB standardised approach and IRRBB supervisory outlier test.

The EC launched a consultation in December 2021 on the macro-prudential framework for the EU's banking sector covering notably the overall design and functioning of the buffer framework.

HSBC Continental Europe Consolidated Results

Scope of the performance review

Use of non-GAAP financial measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRS'), as detailed in the Financial Statements starting on page 175. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort year-on-year comparisons. These are considered non-GAAP financial measures. Non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

Change in reportable segments since year end 2021

Effective from fourth quarter of 2021, Global Banking and Markets (‘GBM’) in HSBC Continental Europe has been re-segmented into Market & Securities Services (‘MSS’), Global Banking (‘GB’) and GBM Other to align with the reorganised GBM management structure in HSBC Continental Europe and its parent company HSBC Bank plc and internal reporting to the Executive Committee and Chief Operating Decision Maker ('CODM'). This does not change the HSBC Group’s management of its global GBM strategy. Comparative data has been re-presented accordingly and reflected in all the business performance commentary.
Global business results are presented on an adjusted basis in accordance with IFRS 8 ‘Operating Segments’, as detailed in ‘Basis of preparation’ in Note 1.1.(f): Segmental Analysis. Reconciliation of reported and adjusted performance are presented on pages 14 to 15.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the year-on-year effects of significant items that distort year-on-year comparisons. We use ‘significant items’ to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance. These items are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business. We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses year-on-year performance.

Summary consolidated income statement for the year ended

	31 Dec 2021 €m	31 Dec 2020 €m
Net interest income	**987**	1,053
Net fee income	**915**	858
Net income from financial instruments held for trading or managed on a fair value basis	**81**	72
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**1,226**	161
Changes in fair value of long-term debt and related derivatives	**(11)**	(4)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**52**	87
Gains less losses from financial investments	**16**	14
Net insurance premium income	**1,632**	1,367
Other operating income/(expense)	**294**	84
Total operating income[1]	**5,192**	3,692
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(2,829)**	(1,571)
Net operating income before change in expected credit losses and other credit impairment charges[1]	**2,363**	2,121
Change in expected credit losses and other credit impairment charges	**(33)**	(289)
Net operating income	**2,330**	1,832
Total operating expenses[1]	**(2,046)**	(2,777)
Operating profit/(loss)	**284**	(945)
Share of profit in associates and joint ventures	**1**	—
Profit/(loss) before tax	**285**	(945)
Tax expense	**(17)**	(80)
Profit/(loss) for the period	**268**	(1,025)
– shareholders of the parent company	**269**	(1,022)
– non-controlling interests	**(1)**	(3)

1 Total operating income and expenses include significant items as detailed on pages 13 to 16.

Net interest income was EUR 987 million in 2021, down from EUR 1,053 million in the previous year. Interest income decreased by EUR 161 million, from EUR 1,861 million to EUR 1,700 million. In an environment of persisting low and even negative interest rates, income on loans and interest income on bond portfolios of the life insurance subsidiary continued to be pressured downward. This was partly offset by a decrease in interest expense by EUR 95 million to EUR -713 million compared with EUR -808 million last year, reflecting lower funding costs.

Net fee income was EUR 915 million in 2021, up from EUR 858 million in 2020. Fee income increased in Global Banking, with higher income on Global Liquidity and Cash Management activities supported by increased volumes and higher fees on Capital Markets activities due to an increased level of transactions. Growth in fees for MSS was driven by additional volumes in Equities following the exit of the United Kingdom from the European Union.

Fee increases in Commercial Banking were mainly from lending activity volumes, while WPB fees grew mainly on wealth activities due to the favourable evolution of stock markets in 2021.

Net income from financial instruments held for trading or managed on a fair value basis was EUR 81 million in 2021, up from EUR 72 million in 2020. This increase was driven by the non-recurrence in 2021 of the operational losses recorded in MSS in 2020 and changes in market value for options and swap instruments, partially offset by the impact of exits from the structured rates portfolio in line with HSBC Continental Europe's strategy.

Net income from assets and liabilities of insurance measured at fair value through profit and loss was EUR 1,226 million up from EUR 161 million in 2020. The increase reflected the change in the market value of assets held by the insurance company on behalf of its customers with respect to both unit-linked policies and Eurofund contracts.

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss totalled EUR 52 million in 2021 compared to EUR 87 million in 2020, explained by the non recurrence in 2021 of gains realised in 2020 on investments.

Gains less losses from financial investments were broadly unchanged at EUR 16 million compared to EUR 14 million in 2020.

Net insurance premium income was EUR 1,632 million in 2021, up from EUR 1,367 million in 2020. This increase was mainly related to better commercial conditions in 2021 compared to 2020 and to the increase of insurance inflows mainly in unit-linked contracts.

Other operating income was EUR 294 million up from EUR 84 million the previous year, mainly related to the variation of PVIF movement as market conditions improved in 2021 compared to 2020, partly offset by the non recurrence in 2021 of EUR 100 million of exceptional revenue booked in 2020 in Corporate Centre.

Net insurance claims incurred, benefits paid and movement in liabilities to policyholders were EUR 2,829 million in 2021, compared to EUR 1,571 million in 2020.

This increase was mainly driven by market value effect on unit-linked contracts, deferred participation and increased net insurance premiums. The impact is the counterpart to the income shown under net income from assets and liabilities of insurance and net insurance premium incomes.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 2,363 million, up from EUR 2,121 million in 2020. This increase is mainly due to the impact of improved market conditions on PVIF, revenue growth for Global Banking and Commercial Banking particularly on lending activities, and higher MSS revenue on net fee income and the non recurrence of 2020 operational losses. This was partly offset by low interests rates that continue to impact the net interest income of Commercial Banking and WPB.

Change in expected credit losses and other credit impairment charges ('ECL') was a EUR 33 million provision compared to a EUR 289 million provision in 2020. ECL decreased in all Global Businesses with the improvement of the current and forward-looking economic conditions as European economies have progressively re-opened.

Operating expenses amounted to EUR 2,046 million in 2021 down from EUR 2,777 million in 2020. The decrease was driven by the non recurrence in 2021 of the impairment of tangible and intangible assets for EUR 500 million and restructuring costs for EUR 258 million, saves related to staff exits and lower administrative expenses, despite the increased contribution to the Single Resolution Fund from EUR 106 million to EUR 144 million this year.

Profit before tax was EUR 285 million, compared to a loss of EUR 945 million loss in 2020.

Profit attributable to shareholders of the parent company in 2021 was EUR 269 million, up from a EUR 1,022 million loss in the previous year.

Significant revenue items by business segment – (gains)/losses

	Year ended 31 Dec 2021						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services[1]	Global Banking[1]	Global Banking and Markets Other[1]	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
Reported revenue	**938**	**725**	**254**	**503**	**(85)**	**28**	**2,363**
Significant revenue items	—	—	6	—	155	(6)	155
Adjusted revenue	**938**	**725**	**260**	**503**	**70**	**22**	**2,518**
	Year ended 31 Dec 2020						
Reported revenue	622	700	208	393	63	135	2,121
Significant revenue items[2]	—	—	—	—	31	(99)	(68)
Adjusted revenue	622	700	208	393	94	36	2,053

1 A change in reportable segments was made during 2021. Comparative data has been re-presented accordingly.
2 In 2021, significant items include EUR 155 million revenue loss associated with disposal losses related to GBM RWA reduction initiatives.

Significant cost items by business segment – (recoveries)/charges

	Year ended 31 Dec 2021						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services[1]	Global Banking[1]	Global Banking and Markets Other[1]	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
Reported operating expenses	**(765)**	**(425)**	**(376)**	**(260)**	**(65)**	**(155)**	**(2,046)**
Significant cost items	**5**	**(10)**	**—**	**—**	**1**	**95**	**91**
– impairment of goodwill, intangibles and tangibles	**—**	**—**	**—**	**—**	**—**	**2**	**2**
– restructuring cost and other significant items	**5**	**(10)**	**—**	**—**	**1**	**93**	**89**
Adjusted operating expenses	**(760)**	**(435)**	**(376)**	**(260)**	**(64)**	**(60)**	**(1,955)**
	Year ended 31 Dec 2020						
Reported operating expenses	(918)	(557)	(346)	(241)	(288)	(427)	(2,777)
Significant cost items	38	110	—	—	184	350	682
– impairment of goodwill, intangibles and tangibles	36	30	—	—	53	253	372
– restructuring cost and other significant items	2	80	—	—	131	97	310
Adjusted operating expenses	(880)	(447)	(346)	(241)	(104)	(77)	(2,095)

1 *A change in reportable segments was made during 2021. Comparative data has been re-presented accordingly.*

Net impact on profit before tax by business segment

	Year ended 31 Dec 2021						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services[1]	Global Banking[1]	Global Banking and Markets Other[1]	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
Reported profit/(loss) before tax	**193**	**232**	**(122)**	**256**	**(148)**	**(126)**	**285**
Significant revenue items	**—**	**—**	**6**	**—**	**155**	**(6)**	**155**
Significant cost items	**5**	**(10)**	**—**	**—**	**1**	**95**	**91**
Adjusted profit/(loss) before tax	**198**	**222**	**(116)**	**256**	**8**	**(37)**	**531**
Net impact on reported profit and loss	**5**	**(10)**	**6**	**—**	**156**	**89**	**246**
	Year ended 31 Dec 2020						
Reported profit/(loss) before tax	(318)	(47)	(138)	75	(225)	(292)	(945)
Significant revenue items	—	—	—	—	31	(99)	(68)
Significant cost items	38	110	—	—	184	350	682
Adjusted profit/(loss) before tax	(280)	63	(138)	75	(10)	(41)	(331)
Net impact on reported profit and loss	38	110	—	—	215	251	614

1 *A change in reportable segments was made during 2021. Comparative data has been re-presented accordingly.*

Adjusted profit/(loss) for the period

	Wealth and Personal Banking €m	Commercial Banking €m	Markets and Securities Services[1] €m	Global Banking[1] €m	Global Banking and Markets Other[1] €m	Corporate Centre €m	Total €m
	Year ended 31 Dec 2021						
Net operating income before expected credit loss and other credit risk provisions	**938**	**725**	**260**	**503**	**70**	**22**	**2,518**
Change in expected credit loss and other credit risk	**20**	**(68)**	**—**	**13**	**2**	**—**	**(33)**
Net operating income	**958**	**657**	**260**	**516**	**72**	**22**	**2,485**
Total operating expenses	**(760)**	**(435)**	**(376)**	**(260)**	**(64)**	**(60)**	**(1,955)**
Operating profit	**198**	**222**	**(116)**	**256**	**8**	**(38)**	**530**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**—**	**1**	**1**
Adjusted profit before tax	**198**	**222**	**(116)**	**256**	**8**	**(37)**	**531**
	Year ended 31 Dec 2020						
Net operating income before expected credit loss and other credit risk provisions	622	700	208	393	94	36	2,053
Change in expected credit loss and other credit risk	(22)	(190)	—	(77)	—	—	(289)
Net operating income	600	510	208	316	94	36	1,764
Total operating expenses	(880)	(447)	(346)	(241)	(104)	(77)	(2,095)
Operating profit	(280)	63	(138)	75	(10)	(41)	(331)
Share of profit in associates and joint ventures	—	—	—	—	—	—	—
Adjusted profit before tax	(280)	63	(138)	75	(10)	(41)	(331)

1 *A change in reportable segments was made during 2021. Comparative data has been re-presented accordingly.*

Adjusted profit before tax was EUR 531 million in 2021, compared with the EUR 331 million loss recorded in 2020. This increase was driven by higher net operating income before change in expected credit losses supported by a favourable PVIF movement, higher business revenues, lower expected credit losses and lower operating expenses.

Adjusted net operating income before change in expected credit losses and other credit impairment charges was EUR 2,518 million in 2021, up from EUR 2,053 million in 2020. The increase was mainly related to the favourable PVIF movement, from EUR -123 million in 2020 to EUR 187 million in 2021, and to revenue growth from Global Banking in all product lines, from Commercial Banking particularly on lending activities, and from MSS including the non-recurrence in 2021 of operational losses in 2020.

Adjusted change in expected credit losses and other credit impairment charges was a EUR 33 million provision in 2021, compared with a EUR 289 million provision in 2020. ECL decreased in all Global Businesses, reflecting an improvement of the current and forward-looking economic conditions as European economies have progressively re-opened.

Adjusted operating expenses were EUR 1,955 million in 2021, down from EUR 2,095 million in 2020. This was mainly driven by lower depreciation and amortisation, lower staff costs and lower administrative expenses, partly offset by increased contributions to the Single Resolution Fund.

Wealth and Personal Banking

Adjusted profit before tax was EUR 198 million, up from a EUR 280 million loss in 2020.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 938 million up from EUR 622 million in 2020. The increase was mainly the result of the favourable market impact on life insurance manufacturing (PVIF, which increased by EUR 310 million). Interest income was below the prior year as historically low interest rates continued to weigh on deposits, despite higher balances and lower funding costs. Net fee income was also above the prior year driven by asset and wealth management activities supported by favourable market conditions.

Adjusted change in expected credit losses and other credit impairment charges was a net release of EUR 20 million compared with a net charge of EUR 22 million in 2020. The net release reflected continued stability in economic conditions and better levels of credit performance. This compared with the build-up of stage 1 and stage 2 allowances last year due to the adverse economic outlook during the earlier phases of the Covid-19 pandemic.

Adjusted operating expenses decreased by EUR 120 million to EUR 760 million primarily due to the non-recurrence of the impairment of tangible assets recognised in 2020, efficiency gains in the business and continued cost discipline.

Loans and advances to customers at EUR 24.6 billion in December 2021, were broadly stable compared to December 2020.

Total Assets Under Management from customers, inclusive of HSBC Assurances Vie, were EUR 62 billion in December 2021, an increase of 4 per cent compared to December 2020. The growth was mainly driven by increased customer deposits, which increased 6 per cent to EUR 22.4 billion, and higher wealth assets under management supported by favourable market impacts.

Commercial Banking

Adjusted profit before tax was EUR 222 million, an increase of EUR 159 million compared to 2020.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 725 million, an increase of EUR 25 million compared to 2020, mainly driven by increasing revenue in lending activities and despite the impact of historically low interest rates.

Revenue generated by Continental Europe customers in other international HSBC Group entities represented 40 per cent of revenues generated by the same companies in Continental Europe. HSBC remains a key partner for companies seeking to set up abroad and for foreign companies seeking to expand in Continental Europe.

Adjusted change in expected credit losses and other credit impairment charges was EUR 68 million, down from EUR 190 million in 2020 reflecting an improvement in the economic outlook and recovery from the impact of the Covid-19 pandemic in 2020.

Adjusted operating expenses decreased by EUR 12 million to EUR 435 million, mainly driven by a decrease in headcount following the implementation of social plans in the second half of 2021.

Loans and advances to customers were EUR 17.8 billion at December 2021, a decrease of 1 per cent compared to December 2020. Commercial Banking continued to support its clients through the Covid-19 crisis with EUR 1.9 billion loans under the French Government guarantee scheme, a large majority of the loans granted under this scheme in 2020 were extended in 2021.

Deposits grew 6 per cent to EUR 28.6 billion, with business growth in Global Liquidity and Cash Management activities particularly in Netherlands and Ireland.

Markets and Securities Services

Adjusted loss before tax was EUR 116 million compared to a loss of EUR 138 million in 2020, driven by higher revenues in Equities and the non-recurrence of the operational losses recognised in 2020 partly offset by higher contribution to the Single Resolution Fund.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 260 million, an increase of EUR 52 million compared to prior year. The increase was driven by higher revenue in Equities thanks to new product offerings post the United Kingdom's exit from the European Union and higher Equity Capital Markets mandates, and in Global Debt Markets due to the non-recurrence of the operational losses recognised in 2020.

Adjusted operating expenses were EUR 376 million, an increase of EUR 30 million compared to prior year. This was driven by higher contributions to the Single Resolution Fund and intercompany recharges which were partly offset by lower front office costs following strategic cost actions taken in 2020 and 2021.

Customer deposits grew by EUR 4.0 billion to EUR 4.7 billion, driven by the transfer of accounts held with HSBC Securities Services from HSBC Bank plc.

Global Banking

Adjusted profit before tax was EUR 256 million, an increase of EUR 181 million compared to 2020.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 503 million, an increase of EUR 110 million compared with 2020, across all product categories. Lending revenues increased in 2021 as Global Banking continued to support its clients through the Covid-19 crisis with more than EUR 1.5 billion of balances related to state backed facilities on 31 December 2021. Global Liquidity and Cash Management showed strong revenue growth in fee income driven by business growth and pricing in the Euroclearing business. Average customer deposits, net interest income and margins were broadly flat. M&A revenues increased significantly whilst Capital Markets revenues grew supported by the market environment and the transfer of activities relating to EEA clients to HSBC Continental Europe from HSBC Bank plc.

Adjusted change in expected credit losses and other credit impairment charges was a net release of EUR 13 million, compared with a charge of EUR 77 million in 2020.

Adjusted operating expenses were EUR 260 million, an increase of EUR 19 million compared to prior year, primarily reflecting higher IT costs and other support costs partly offset by the cost reduction from the execution of social plans.

Loans and advances to customers of EUR 16.9 billion increased by EUR 3.3 billion compared to 2020 driven by increased lending to corporates in the second half of 2021.

Customer deposits of EUR 14.0 billion increased by EUR 1.8 billion compared to 2020 driven by Financial and Public sector clients.

Global Banking and Markets Other

Adjusted profit before tax was EUR 8 million, an increase of EUR 18 million compared to 2020.

Adjusted net operating income before expected credit losses and other credit impairment charges were EUR 70 million, a reduction of EUR 26 million compared with 2020 due to lower recoveries of costs from other group entities in 2021, partly offset by increased revenues in Principal Investments.

Adjusted operating expenses were EUR 64 million, a decrease of EUR 40 million compared to 2020, reflecting cost reduction resulting from the execution of social plans initiated in 2020 and lower recoveries of costs from other group entities.

Corporate Centre

Adjusted loss before tax was EUR 37 million in 2021 compared to a EUR 41 million loss in 2020.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 22 million in 2021 versus EUR 36 million in 2020, reflecting lower recharges to other entities in the HSBC Group.

Adjusted operating expenses were EUR 60 million in 2021 compared with EUR 77 million in 2020.

Summary consolidated balance sheet

	At	
	31 Dec 2021	31 Dec 2020
	€m	€m
Total assets	**222,664**	237,099
Cash and balances at central banks	**38,063**	29,508
Trading assets	**12,921**	12,954
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**13,345**	11,648
Derivatives	**39,634**	56,475
Loans and advances to banks	**6,832**	6,781
Loans and advances to customers	**59,612**	56,225
Reverse repurchase agreements – non-trading	**20,487**	21,522
Financial investments	**16,110**	19,167
Other assets	**15,658**	22,816
Assets held for sale	**2**	3
Total liabilities	**214,988**	229,640
Deposits by banks	**18,548**	17,204
Customer accounts	**70,144**	61,393
Repurchase agreements – non-trading	**8,731**	10,984
Trading liabilities	**16,247**	17,828
Financial liabilities designated at fair value	**13,733**	16,892
Derivatives	**35,895**	55,714
Debt securities in issue	**7,414**	3,605
Liabilities under insurance contracts	**23,698**	23,228
Other liabilities	**20,578**	22,792
Total equity	**7,676**	7,459
Total shareholders' equity	**7,667**	7,434
Non-controlling interests	**9**	25

Total assets were EUR 223 billion at 31 December 2021, down from EUR 237 billion at 31 December 2020.

Assets

HSBC Continental Europe's deposits at the central banks grew by EUR 8.6 billion to EUR 38.1 billion in 2021 mainly explained by an increase of customer deposits.

The trading portfolio remained stable at EUR 12.9 billion. Financial assets mandatorily measured at fair value through profit and loss increased by EUR 1.7 billion at EUR 13.3 billion.

Derivative instruments were EUR 16.8 billion down to EUR 39.6 billion in 2021 as a result of lower interest rate.

Loans and advances to customers increased by EUR 3.4 billion to EUR 59.6 billion in 2021 mainly due to higher lending to corporates.

Reverse repurchase agreements – non trading were EUR 20.5 billion in 2021, stable compared to EUR 21.5 billion in 2020.

Liabilities

Deposits by banks increased by EUR 1.3 billion to EUR 18.5 billion in 2021.

Customer deposits rose from EUR 61.4 billion in 2020 to EUR 70.1 billion in 2021, mainly driven by the growing deposits from MSS related to the the transfer of accounts held with HSBC Securities Services from HSBC Bank plc, and higher WPB and Commercial Banking customers deposits.

Repo securities, at EUR 8.7 billion, decreased by EUR 2.2 billion due to reduced positions with banks.

Derivatives, at EUR 35.9 billion, decreased by EUR 19.8 billion, due to lower interest rates.

Equity

Shareholders' equity stood at EUR 7.7 billion, up from EUR 7.4 billion in 2020.

The CET1 (Common Equity Tier 1) ratio was 12.0 per cent at 31 December 2021 and a total capital ratio was 16.5 per cent.

Liquidity and funding

Outstanding medium- and long-term funding and the bank's main financing transactions in 2021 are presented in the liquidity and financing management section on pages 146 to 148.

The short-term ratio (liquidity coverage ratio or LCR) was 145 per cent and the long-term ratio (net stable funding ratio or NSFR) was 130 per cent.

Balance Sheet Information

	Wealth and Personal Banking €m	Commercial Banking €m	Markets and Securities Services[1] €m	Global Banking[1] €m	Global Banking and Markets Other[1] €m	Corporate Centre €m	Total €m
At 31 Dec 2021							
Loans and advances to customers	**24,639**	**17,826**	**267**	**16,870**	**101**	**(91)**	**59,612**
Customers accounts	**22,372**	**28,626**	**4,685**	**14,034**	**725**	**(298)**	**70,144**
At 31 Dec 2020							
Loans and advances to customers	24,204	18,075	272	13,581	670	(577)	56,225
Customers accounts	21,038	27,023	704	12,284	1,077	(733)	61,393

1 A change in reportable segments was made during 2021. Comparative data has been re-presented accordingly.

Reported Profit before tax by country

	Wealth and Personal Banking €m	Commercial Banking €m	Markets and Securities Services[1] €m	Global Banking[1] €m	Global Banking and Markets Other[1] €m	Corporate Centre €m	Total €m
At 31 Dec 2021							
France	**198**	**137**	**(140)**	**212**	**(144)**	**(110)**	**153**
Belgium	**—**	**6**	**2**	**—**	**—**	**—**	**8**
Czech Republic	**—**	**14**	**2**	**—**	**1**	**—**	**17**
Greece	**(5)**	**(4)**	**(3)**	**23**	**2**	**(3)**	**10**
Ireland	**—**	**22**	**11**	**—**	**—**	**(2)**	**31**
Italy	**—**	**4**	**1**	**15**	**(1)**	**(5)**	**14**
Luxembourg	**—**	**—**	**(13)**	**2**	**(1)**	**(3)**	**(15)**
Netherlands	**—**	**29**	**8**	**(2)**	**(1)**	**—**	**34**
Poland	**—**	**11**	**8**	**—**	**—**	**(3)**	**16**
Spain	**—**	**13**	**1**	**15**	**(1)**	**—**	**28**
Sweden	**—**	**—**	**—**	**—**	**—**	**—**	**—**
United Kingdom	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**1**	**(9)**	**(3)**	**—**	**(11)**
Reported Profit/(loss) before tax	**193**	**232**	**(122)**	**256**	**(148)**	**(126)**	**285**
At 31 Dec 2020							
France	(303)	(148)	(158)	82	(216)	(270)	(1,013)
Belgium	—	1	1	—	—	—	2
Czech Republic	—	16	1	—	—	(1)	16
Greece	(15)	—	—	(7)	—	(1)	(23)
Ireland	—	17	8	(2)	—	(1)	22
Italy	—	1	3	9	(10)	(6)	(3)
Luxembourg	—	—	(10)	4	—	(1)	(7)
Netherlands	—	39	6	(1)	(1)	—	43
Poland	—	10	5	2	3	(1)	19
Spain	—	17	6	13	(5)	(11)	20
Sweden	—	—	—	(2)	—	—	(2)
United Kingdom	—	—	—	—	—	—	—
Others	—	—	—	(23)	4	—	(19)
Reported Profit/(loss) before tax	(318)	(47)	(138)	75	(225)	(292)	(945)

1 A change in reportable segments was made during 2021. Comparative data has been re-presented accordingly.

Net Interest Margin

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

Net interest margin was 63 basis points ('bps') in 2021 compared to 69 bps in 2020. The persisting low and even negative interest rate environment pushed the gross interest yield downward. This was partly offset by lower cost of funds.

Net Interest Income

	2021	2020
	€m	€m
Interest income	1,700	1,861
Interest expense	(713)	(808)
Net interest income	987	1,053
Average interest-earning Assets	156,370	153,191
	%	%
Net interest margin[1]	0.63	0.69

1 *Net interest margin is net interest income expressed as an annualised percentage of average interest-earning assets.*

Summary of interest income by asset type

	2021			2020		
	Average balance	Interest income	Yield[1]	Average balance	Interest income	Yield[1]
	€m	€m	%	€m	€m	%
Short term funds and loans and advances to banks	46,068	(181)	(0.39)	34,734	(117)	(0.34)
Loans and advances to customers	56,062	792	1.41	58,805	898	1.53
Reverse repurchase agreements – non trading	23,509	(318)	(1.35)	27,987	(412)	(1.47)
Financial investments	16,978	263	1.55	19,156	283	1.47
Other interest-earning assets	13,753	2	0.01	12,509	7	0.05
Total interest-earning assets	156,370	558	0.36	153,191	659	0.43
Trading assets and financial assets designated or mandatorily measured at fair value[2]	17,840	209	1.17	19,535	204	1.04
Expected credit losses provision	(805)	–		(770)	–	
Non-interest-earning assets	65,750	–		77,328	–	
Total	239,155	767	0.32	249,284	863	0.35

1 *Yield has been calculated taking into account negative interest on assets recognised as interest expense in the income statement.*
2 *Interest income arising from trading assets is included within 'Net trading income' in the income statement.*

Summary of interest expense by type of liability and equity

	2021			2020		
	Average balance	Interest expense	Cost[1]	Average balances	Interest expense	Cost[1]
	€m	€m	%	€m	€m	%
Deposits by banks	20,348	(162)	(0.80)	16,748	(87)	(0.52)
Customer accounts	24,751	(27)	(0.11)	23,456	28	0.12
Repurchase agreements – non trading	11,651	(259)	(2.22)	12,659	(356)	(2.82)
Financial liabilities designated at fair value – own debt issued	10,083	(24)	(0.24)	11,544	(20)	(0.18)
Debt securities in issue and subordinated debts	6,218	28	0.45	8,075	6	0.08
Other interest-bearing liabilities	15,406	15	0.10	13,264	35	0.26
Total interest-bearing liabilities	88,457	(429)	(0.49)	85,746	(394)	(0.46)
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)[2]	25,495	427	1.67	28,048	444	1.58
Non-interest-bearing current accounts	41,712			39,430		
Total equity and other non-interest bearing liabilities	83,490			96,060		
Total	239,154	(2)	0.00	249,284	50	0.02

1 *Cost has been calculated taking into account negative interest on liabilities recognised as interest income in the income statement.*
2 *Interest expense arising from trading liabilities is included within 'Net trading income' in the income statement.*

Post-balance sheet events

New products and services are offered to customers of the HSBC Group in Continental Europe on a regular basis. Information is available on the Group's websites, in particular in the press releases posted at www.hsbc.fr.

Proposed Capital Increase

On 22 February 2022, the Board of Directors convened an Extra-Ordinary General Meeting on 11 March 2022 to propose a share capital increase of EUR 700 million.

There have been no other significant change affecting the financial or sales situation of HSBC Continental Europe or its subsidiaries since 31 December 2021 until the Board of Directors of 22 February 2022 which approves these financial statements.

Historical data (unaudited)

	2021	2020	2019	2018	2017
	€m	€m	€m	€m	€m
HSBC Continental Europe					
Profit before tax	**285**	(945)	(22)	45	219
Profit attributable to shareholders	**269**	(1,022)	(39)	(17)	177
At 31 Dec					
Shareholders' equity	**7,667**	7,434	8,443	6,555	5,676
Loans and advances to customers and banks	**66,444**	63,006	63,754	53,194	49,699
Customer accounts and deposits by banks	**88,692**	78,597	69,663	52,734	51,574
Total Balance Sheet	**222,664**	237,099	237,680	180,946	167,544
Number of employees (full-time equivalents)[3]	**7,451**	8,517	9,472	8,829	8,337
Ratios					
– Total capital ratio[1] (%)	**16.5**	17.3	16.9	15.7	14.1
– Common Equity Tier One Ratio[1] (%)	**12.0**	12.6	13.5	13.1	13.1
– Cost efficiency ratio (reported basis)[2] (%)	**86.6**	130.9	95.2	98.3	78.6

1 *Capital ratios from 2019 are reported under fully loaded and no longer under transitional.*
2 *The cost efficiency ratio in 2017 does not include the depreciation of goodwill.*
3 *The increase in 2019 is due to acquisition of seven branches: Madrid branch, Milan branch, Ireland branch, Netherlands branch Belgium branch, Prague branch with effect from 1 February 2019 and Luxembourg branch from 1 March 2019.*

Credit ratings

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

	Standard & Poor's	Moody's	FitchRatings
Long-term Senior preferred	A+	A1	AA-
Outlook	Stable	Stable	Negative
Short term	A-1	P-1	F1+

During the year 2021, Moody's announced the downgrade of HSBC Continental Europe long term ratings by one notch to A1 from Aa3, with a stable outlook. This followed the downgrade of HSBC Holdings' senior debt ratings to A3 from A2 on 8 June 2021.

HSBC Continental Europe ratings are now aligned with those of its parent company HSBC Bank plc for all three agencies.

After the announcement of the planned sale of the French retail business, the three agencies announced that the sale would not trigger any rating action.

Other information on HSBC Continental Europe

Information on supplier payable amounts schedule

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

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

	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 91 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	**21,952**					**6,067**
Amount of invoices including VAT (in €k)	**647,572**	**166,429**	**70,445**	**15,677**	**36,819**	**289,371**
Percentage of total purchasing in the year	**69%**	**18%**	**8%**	**2%**	**4%**	**31%**
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	**1,595**					
Amount of excluded invoices including VAT (in €k)	**58,738**					
(C) Suppliers' payment terms (contractual or legal terms)						
Payment terms used to assess the late payments	Contractual terms: 45 days					

1 *Excluding the European branches of HSBC Continental Europe.*

Information on client receivable amounts schedule

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

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

	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 91 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	**84**					**788**
Amount of invoices excluding VAT (in €k)	**21,007**	**16,319**	**9,409**	**2,459**	**11,876**	**40,063**
Percentage of total revenue of the year	**1.62%**	**1.26%**	**0.72%**	**0.19%**	**0.91%**	**3.08%**
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	–					
Amount of excluded invoices excluding VAT (in €k)	–					
(C) Clients' payment terms (contractual or legal terms)						
Payment terms used to assess the late payments	Contractual terms: 30 days					

1 *Excluding the European branches of HSBC Continental Europe.*

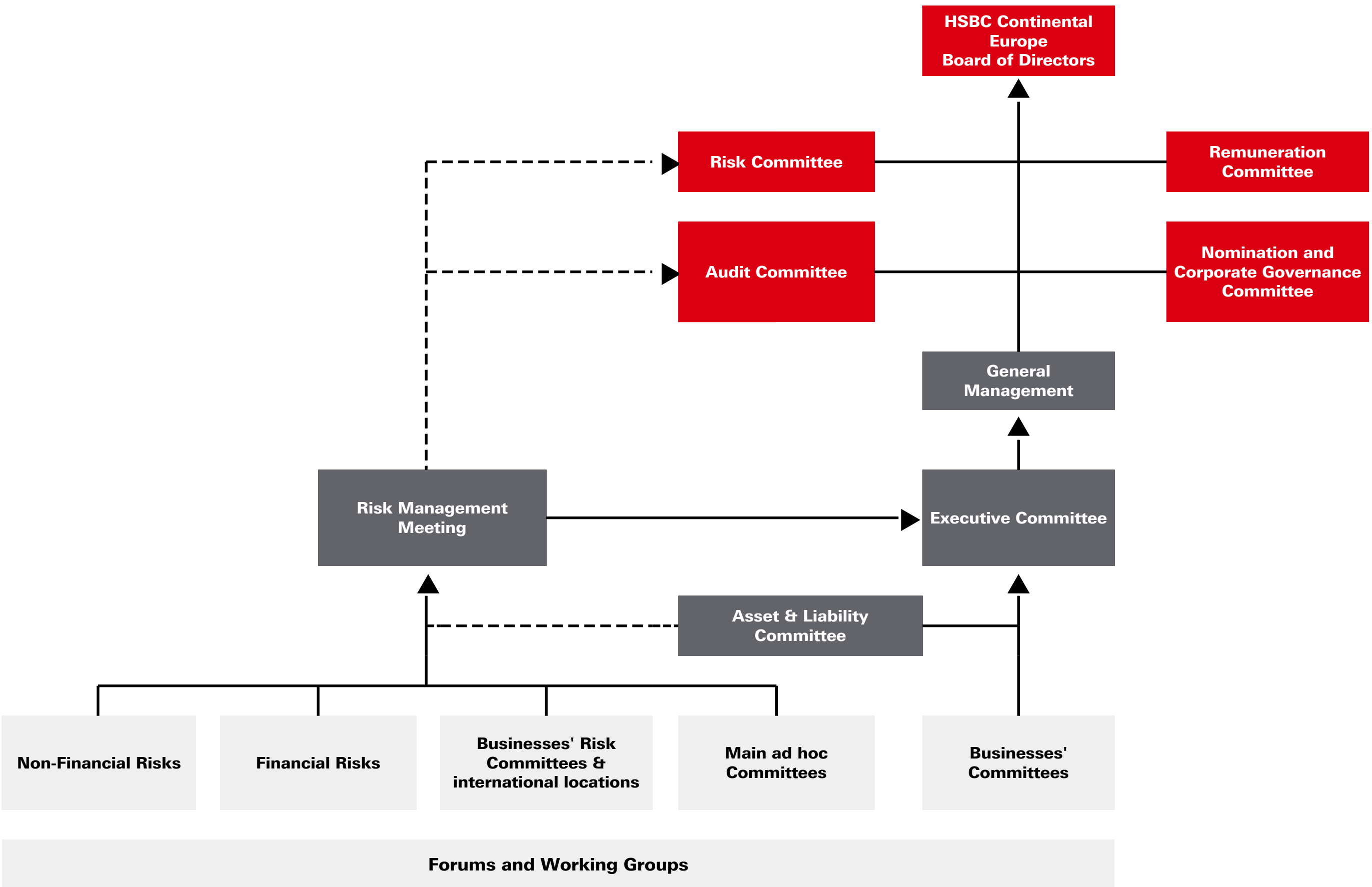
This information does not include banking transactions and certain related transactions as HSBC Continental Europe considers that they do not fall within the scope of the information to be produced.

Corporate Governance report

Under article L. 225-37 of the French Commercial Code, the Board of Directors presents a report on Corporate Governance attached to the management report referred to in article L. 225-100 to the shareholders' general meeting. This report was submitted to the Nomination and Corporate Governance Committee for the part relating to Corporate Governance and to the Remuneration Committee for the one on Remunerations at their meetings held on 28 January 2022.

Corporate governance bodies and regime

Governance bodies structure



This Corporate Governance report includes detailed information on:

- Membership, duties and work of the Board of Directors on pages 24 to 35;
- Membership, duties and work of the Board Committees on pages 35 to 39;
- General Management and Executive Committee membership on pages 39 and 40.

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

In particular regarding the information flow on risk, the HSBC Continental Europe Risk Management Meeting, which is chaired by the Chief Risk Officer and includes the Chief Executive Officer, the Deputy Chief Executive Officer and other members of the Executive Committee, is the overarching Committee overseeing risk management and permanent control.

Relevant information, in particular on risk, is shared on a quarterly basis with the Board and its Audit and Risk Committees by the bank's senior management.

Corporate Governance code

In accordance with the requirements under article L. 22-10-10 of the French Commercial Code, it is stated that, given the HSBC Continental Europe's specific situation of 99.9 per cent owned subsidiary of the HSBC Group and which capital securities are not admitted to trading on a regulated market, HSBC Continental Europe does not refer to any corporate governance code drawn up by business representative organisations.

HSBC Continental Europe, like all entities of the HSBC Group, is committed to apply high standards of corporate governance. The HSBC Group has a comprehensive set of principles, policies and procedures, influenced by the UK Corporate Governance Code and which includes requirements in terms of the independence, composition and effectiveness of the Board of Directors, in order to ensure that the Group is well managed, with an appropriate oversight and control. During the year, HSBC Continental Europe adhered to these principles, policies and procedures.

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

Board of Directors[2]

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation. In 2021, the Board reviewed and updated these internal rules at its meeting held on 23 July.

The Board's internal rules define the composition, the duty and the conducting of the Board meetings and the information to the Board of Directors. They indicate the main duties and arrangements for exercising the function of Chairman, of the Chief Executive Officer and of the Executive Managers ('*Dirigeants effectifs*').

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

Changes in the Board composition

Changes occurred during 2021

Further to Nuno Matos's resignation from his directorship, the Board co-opted Stephen O'Connor as a Director at its meeting on 12 February 2021, then appointed him as Vice Chairman of the Board on 30 April 2021. The Shareholders' General Meeting on 11 March 2021 ratified this co-optation.

The Nomination Committee reviewed the position of the Director whose term of office expired at the Annual General Meeting on 11 March 2021: Carola von Schmettow. Further to the reassessment of her suitability and upon recommendation of the Committee, the Board decided to propose her renewal. At the Annual General Meeting held on 11 March 2021, shareholders re-elected this Director.

At its meeting on 30 April 2021, the Board noted Samir Assaf's decision to resign from his position as Chairman of the Board and as a Director. The Board decided to appoint Jean Beunardeau as Chairman of the Board to replace him, with those changes due to take effect on the same date as the appointment of a new Chief Executive Officer.

At its meeting on 9 June 2021, the Board co-opted Andrew Wild as a Director with effect from 15 July 2021 and appointed him as new Chief Executive Officer from 15 July 2021, date from which Jean Beunardeau became Chairman of the Board.

Following the departure of Laurent Lagueny from the company on 31 August 2021, Angélique Terrazzino was designated Director elected by the employees as of that date in application of article L. 225-34 of the French Commercial Code.

Changes planned for the first quarter of 2022

Pursuant to the governance rules of the HSBC Group regarding the length of presence of Directors on the Board, the terms of office of Lindsay Gordon, Philippe Houzé, Thierry Moulonguet and Brigitte Taittinger will not be renewed during the Annual General Meeting.

On the proposal of the Nomination and Corporate Governance Committee, the Board of Directors decided, at its meeting on 22 February 2022, to submit the nominations of Eric Strutz and Michaël Trabbia as Directors for approval of the General Meeting on 11 March 2022

Chair of the Board of Directors

Duties of the Chairman of the Board

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

Presentation of the Chairman of the Board of Directors

Jean Beunardeau

Chairman of the Board of Directors

Member of the Nomination and Corporate Governance Committee

First elected: 2008 as a Director and 15 July 2021 as Chairman of the Board. Last re-elected: 2020. Term ends: 2023

Principal position: Chairman of the Board, HSBC Continental Europe (since July 2021). Vice Chairman Global Banking Europe (since July 2021). Directorship expired in 2021: Chief Executive Officer, HSBC Continental Europe.

Other directorships in the HSBC Group: Chairman of the Board, HSBC Global Asset Management (France). Vice Chairman and Director, HSBC Assurances Vie (France). Director, *Valeurs Mobilières Elysées.* Directorship expired in 2021: Chairman, Fondation HSBC pour l'Education.

Other directorships outside of the HSBC Group: Member of the Supervisory Board, *Société Anonyme des Galeries Lafayette*. Chairman *Académie France-Chine*. Treasurer, *Association du Golf de Saint-Cloud*. Member of the Great Council, *Cercle de l'Union Interalliée.* Directorship expired in 2021: Director: *Fondation de France* (permanent representative of HSBC Continental Europe).

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

Skills and experience: Born in 1962. Graduated from Ecole Polytechnique, Telecom Engineer and Master of Economics, he began his career at the Ministry of Finance, at the Forecasting Department then at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC Continental Europe in 1997 in Corporate Finance and became Managing Director in 2000. He was appointed Co-Head of Corporate Investment Banking and Markets, mainly in charge of Corporate and Investment Banking in 2004. In 2005, he was appointed Senior Corporate Vice-President. In 2007, he was appointed Head of Global Banking and Markets of HSBC Continental Europe. In 2010, he was appointed Deputy CEO, in addition to his role as Head of Global Banking and Markets France. The same year, he was appointed Head of Global Banking, Continental Europe, HSBC Group. His direct responsibilities within Global Banking and Markets ended in 2019. From 2012 to 15 July 2021, he was CEO of HSBC Continental Europe. Since 15 July 2021, he is Chairman of the Board of Directors of HSBC Continental Europe and Vice Chairman Global Banking Europe.

[2] *As far as their directorship at HSBC Continental Europe is concerned, the address of HSBC Continental Europe's Directors and Senior Executives is the company's registered office, 38 avenue Kléber, 75116 Paris, France.*

2020	**Directorships in the HSBC Group:** Director and CEO: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), Director and Vice Chairman: HSBC Assurances Vie (France). Director: *Valeurs Mobilières Elysées.* Chairman: *Fondation HSBC pour l'Education*. **Directorships outside of the HSBC Group:** Member of the Supervisory Board: *Société Anonyme des Galeries Lafayette*. Chairman: *Académie France-Chine.* Director, *Fondation de France* (permanent representative of HSBC Continental Europe). Treasurer: *Association du Golf de Saint-Cloud*. Member of the Great Council: *Cercle de l'Union Interalliée.*
2019	**Directorships in the HSBC Group:** Director and CEO: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: *Valeurs Mobilières Elysées.* Chairman: *Fondation HSBC pour l'Education.* **Directorships outside of the HSBC Group:** Director: *Institut de la Gestion Déléguée*. Member of the Supervisory Board: *Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution* (permanent representative of HSBC Continental Europe). Chairman: *Académie France-Chine.* Director, *Fondation de France* (permanent representative of HSBC Continental Europe). Treasurer: *Association du Golf de Saint-Cloud.*
2018	**Directorships in the HSBC Group:** Director and CEO: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: *Valeurs Mobilières Elysées*. Chairman: *Fondation HSBC pour l'Education.* **Directorships outside of the HSBC Group:** Director: *Institut de la Gestion Déléguée*. Member of the Supervisory Board: *Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution* (permanent representative of HSBC Continental Europe). Chairman: *Académie France-Chine*. Director, *Fondation de France* (permanent representative of HSBC Continental Europe). Treasurer: *Association du Golf de Saint-Cloud.*
2017	**Directorships in the HSBC Group:** Director and CEO: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: *Valeurs Mobilières Elysées*. Chairman: *Fondation HSBC pour l'Education.* **Directorships outside of the HSBC Group:** Director: *Institut de la Gestion Déléguée*. Member of the Supervisory Board: *Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution* (permanent representative of HSBC Continental Europe). Chairman: *Académie France-Chine*. Director, *Fondation de France* (permanent representative of HSBC Continental Europe).

Composition of the Board

On 31 December 2021, the Board of Directors comprised 15 Directors, of which 12 were appointed by the Shareholders' General Meeting and three were elected by employees. It should be noted that one position as Director elected by employees is vacant. A representative of the Social and Economic Council attends Board meetings, without voting rights.

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

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

Presentation of the Directors as of 31 December 2021

Andrew Wild

Director and Chief Executive Officer

First elected: 2021. Term ends: 2022[3]

Principal position: Chief Executive Officer, HSBC Continental Europe (since 15 July 2021). Directorship expired in 2021: Deputy Chief Executive Officer, HSBC Continental Europe.

Other directorships in the HSBC Group: Vice Chairman and Director, HSBC Assurances Vie (France) (Since October 2021). Member of the Supervisory Committee, HSBC Bank plc Paris Branch (Since January 2021).

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

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

Skills and experience: Born in 1970. British nationality. Graduate of the Business School of the University of Nottingham. He is also qualified as a chartered accountant. He joined the HSBC Group in 2005, after having been, in particular, Senior Manager Transaction Services at KPMG then, Corporate Finance Director at KPMG Corporate Finance. In 2008, he was appointed Deputy Head of Commercial Banking of HSBC in France. In 2011, he was appointed Global Head of Corporate, Business Banking and Products of Commercial Banking, HSBC Group, then he became, in 2013, Global Head of Mid-Market and Business Banking of Commercial Banking, HSBC Group. He was Deputy Chief Executive Officer, Deputy to the CEO of HSBC Continental Europe from 2015 to 15 July 2021 and Director of HSBC Continental Europe from 2015 to 2019. He was Head of Commercial Banking in France from 2015 to 2018 and Head of Commercial Banking, Europe from 2017 to 15 July 2021. He had been the Chief Executive Officer of HSBC Continental Europe since 15 July 2021.

2020	**Directorships in the HSBC Group:** Deputy CEO: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: *Association Française des Banques.* Chairman: Group of Banks under foreign control in France, *Fédération Bancaire Française.*
2019	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: *Association Française des Banques.* Chairman: Group of Banks under foreign control in France, *Fédération Bancaire Française.*
2018	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: *Association Française des Banques.* Chairman: Group of Banks under foreign control in France, *Fédération Bancaire Française.*
2017	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: *Association Française des Banques.* Chairman: Group of Banks under foreign control in France, *Fédération Bancaire Française.*

[3] *Director standing for re-election at the Annual General Meeting to be held on 11 March 2022.*

Paule Cellard

Independent Director

Member of the Risk Committee and Member of the Remuneration Committee

First elected: 2017. Last re-elected: 2019. Term ends: 2022[4]

Other directorships: Director, CA Indosuez Wealth Management (Europe). Member of the Supervisory Board, Damartex[5]. Member of the Supervisory Board until June 2021 then Director, Somfy[5].

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

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

2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Klefi Conseil. Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.

Christine D'Amore

Director elected by employees

Member of the Remuneration Committee

First elected: 2019. Term ends: 2022.

Principal position: Deputy GRM, South West Corporate Banking Centre, Commercial Banking, HSBC Continental Europe.

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

Skills and experience: Born in 1971. Graduated with a Professional Certificate in 'Banking'. Master's degree in applied foreign languages English/Spanish, business and commerce. Since she joined HSBC in 2003, she held positions as Branch Supervisor, Sales Assistant and Relationship Manager within the Retail Banking and Commercial Banking networks.

2020	**Directorship in the HSBC Group:** Director elected by employees: HSBC Continental Europe.
2019	**Directorship in the HSBC Group:** Director elected by employees: HSBC Continental Europe
2018	–
2017	–

Lindsay Gordon

Independent Director

Chairman of the Risk Committee and Member of the Audit Committee

First elected: 2013. Last re-elected: 2019. Term ends: 2022.

Other directorship in the HSBC Group: Director, HSBC Bank Bermuda Limited.

Other directorships outside of the HSBC Group: Governor and Co-Founder, C.H.I.L.D. Foundation. Director, Export Development Canada.

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

Skills and experience: Born in 1952. British and Canadian nationality. Graduate of an M.B.A. in Finance and International Business at the Sauder School of Business of the University of British Colombia and BA in Economics from the University of British Colombia. He joined HSBC Bank Canada in 1987 and has served in various roles in Toronto and Vancouver including Senior Executive Vice-President, Chief Credit Officer, Senior Vice-President and Head of Special Credit, and Vice-President at Commercial Banking in Toronto. He was appointed Chief Operating Officer in 1999 then President and Chief Executive Officer from 2003 to 2013, date of his retirement.

2020	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder :C.H.I.L.D. Foundation. Director: Export Development Canada.
2019	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Export Development Canada.
2018	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.

4 *Director standing for re-election at the Annual General Meeting to be held on 11 March 2022.*
5 *Listed company.*

2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.

Philippe Houzé

Independent Director

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

First elected: 1999. Last re-elected: 2019. Term ends: 2022.

Principal position: Chairman of the Management Board, Galeries Lafayette Group.

Other directorships: Deputy Chairman, Chief Executive Officer and member of the Supervisory Board, Motier. Chairman of the Supervisory Board, *La Redoute*. Lead Director then Deputy Chairman, Carrefour[6]. Director, Lafayette Anticipation – *Fondation d'entreprise Galeries Lafayette* (Founders College). Director, INSEAD. Member of the Steering Committee, *Union du Grand Commerce de Centre-Ville ('UCV').* Elected Member, *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France*. Member of the Great Council, *Cercle de l'Union Interalliée*. Chairman of the France Council, INSEAD.

Chairman of the Board of the consular higher education institution, ESCP. Member, *Association Alliance 46.2 Entreprendre en France pour le Tourisme*.

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

Skills and experience: Born in 1947. Graduate of a Bachelor degree in Political Science and of an M.B.A. from the Institut Européen d'Administration des Affaires ('INSEAD'). Director of *Galeries Lafayette* since 1974 and Chairman of the Management Board since 2003.

2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman of the Management Board: *Galeries Lafayette Group*. Deputy Chairman and Chief Executive Officer: *Motier*. Chairman: *Motier Domaines, Guérin Joaille*rie. Lead Director: Carrefour. Director: *Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette* (Founders College), INSEAD, *Institut Français de la Mode.* Chairman of the Supervisory Board: *La Redoute*. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville ('UCV')*. Elected member: *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France*. Member of the Supervisory Committee: BHV Exploitation. Chairman of the France Council: INSEAD. Chairman of the Board of the consular higher education institution, ESCP. Deputy Chairman: *Association Alliance 46.2 Entreprendre en France pour le Tourisme*. Member of the Great Council: *Cercle de l'Union Interalliée.*
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman of the Management Board: *Galeries Lafayette Group.* Deputy Chairman and Chief Executive Officer: Motier. Chairman: *Motier Domaines, Guérin Joaillerie*. Lead Director: Carrefour. Director: *Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette* (Founders College), INSEAD, *Institut Français de la Mode*. Chairman of the Supervisory Board: *La Redoute*. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville ('UCV')*. Elected member: *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France.* Member of the Supervisory Committee: BHV Exploitation. Chairman of the France Council: INSEAD. Chairman of the Board of the consular higher education institution, ESCP. Deputy Chairman: *Association Alliance 46.2 Entreprendre en France pour le Tourisme*. Member of the Great Council: *Cercle de l'Union Interalliée.*
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman of the Management Board: *Galeries Lafayette Group*. Deputy Chairman and Chief Executive Officer: Motier. Chairman: *Motier Domaines, Guérin Joaillerie*. Lead Director: Carrefour. Director: *Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette* (Founders College), INSEAD, *Institut Français de la Mode*. Chairman of the Supervisory Board: *La Redoute*. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville ('UCV')*. Elected member: *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France*. Member of the Supervisory Committee: BHV Exploitation. Chairman of the France Council: INSEAD. Deputy Chairman: Association Alliance 46.2 *Entreprendre en France pour le Tourisme.* Chairman of the Board of the consular higher education institution, ESCP. Member of the Great Council, *Cercle de l'Union Interalliée.*
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman of the Management Board: *Galeries Lafayette Group*. Deputy Chairman and Chief Executive Officer: *Motier*. Chairman: *Motier Domaines, Guérin Joaillerie.* Lead Director: Carrefour. Director: *Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette* (Founders College), INSEAD, Expofrance 2025, EESC ESCP, *Institut Français de la Mode*. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville ('UCV')*. Elected member: *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France.* Member of the Supervisory Committee: BHV Exploitation. Deputy Chairman: *Association Alliance 46.2 Entreprendre en France pour le Tourisme*. Chairman of the France Council: INSEAD. Chairman of the France Board of Governors, ESCP Europe. Chairman of the Governing Board: Novancia Business School. Member of the Great Council, *Cercle de l'Union Interalliée.*

[6] *Listed company*

Thierry Moulonguet

Independent Director

Chairman of the Audit Committee and Member of the Risk Committee

First elected: 2009. Last re-elected: 2019. Term ends: 2022.

Other directorships: Managing Director, *Revue Des Deux Mondes*[7]. Chairman of the Supervisory Board, Webedia[7]. Director, Fimalac[7,8]. Director, *Groupe Lucien Barrière*[7]. Director, *Fimalac Développement* (Luxembourg)[7]. Director, *Valeo*[8].

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

Skills and experience: Born in 1951. Graduated from the *Institut d'Etudes Politiques de Paris* and *Ecole Nationale d'Administration.* Degree in Economic Science. After having held several positions in the French public service, he joined the Finance Department of Renault in 1991. From 1999 to 2003, Senior Vice-President, Chief Financial Officer, Member of the Executive Committee and of the Board of Directors of Nissan. Until 2010, Executive Vice-President and Chief Financial Officer of the Renault Group, and then, until 2011, Director and Special Adviser to the President of the Renault-Nissan Alliance.

2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Managing Director: *Revue Des Deux Mondes*. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, *Groupe Lucien Barrière, Fimalac Développement (Luxembourg),* Prodways Group, Valeo, Fimalac Entertainment.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Managing Director: *Revue Des Deux Mondes.* Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, *Groupe Lucien Barrière, Fimalac Développement (Luxembourg),* Prodways Group, Valeo, Fimalac Entertainment.
2018	**Directorships in the HSBC Group**: Independent Director: HSBC Continental Europe, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer then Managing Director: *Revue Des Deux Mondes*. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, *Fimalac Développement (Luxembourg),* Prodways Group, Valeo, Fimalac
2017	**Directorships in the HSBC Group**: Independent Director: HSBC Continental Europe, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer: *Revue Des Deux Mondes.* Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, *Groupe Lucien Barrière, Fimalac Développement (Luxembourg),* Prodways Group, Valeo, Trois-S Entertainment.

Stephen O'Connor

Vice-Chairman and Independent Director

First elected: 2021. Term ends: 2022[9]

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

Other directorships outside the HSBC Group: Chairman and Founder, Quantile Technologies Limited. Director, London Stock Exchange plc. Director, FICC Markets Standards Board. Directorship expired in 2021: Director, The London Stock Exchange Group plc.

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

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

2020	**Directorships in the HSBC Group**: Independent Director: HSBC Continental Europe, Chairman : HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Founder: Quantile Technologies Limited. Director: The London Stock Exchange Group plc, London Stock Exchange plc, FICC Markets Standards Board.
2019	–
2018	–
2017	–

Dominique Perrier

Independent Director

Member of the Audit Committee

First elected: 2018. Last re-elected: 2019. Term ends: 2022[9].

Other directorships: Director, NaturaBuy. Chairman, Moncey Arbitrage et Conseil.

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

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

7 *Company owned by the Fimalac group.*
8 *Listed company.*
9 *Director standing for re-election at the Annual General Meeting to be held on 11 March 2022.*

Retired since 2017, she intervenes, on the one hand, as an independent director and, on the other hand, as arbitrator, independent expert and mediator.

2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: *Moncey Arbitrage et Conseil*. Director: NaturaBuy.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: *Moncey Arbitrage et Conseil*. Director: NaturaBuy.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: *Moncey Arbitrage et Conseil*. Director: NaturaBuy.
2017	–

Arnaud Poupart-Lafarge

Independent Director

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

First elected: 2016. Last re-elected: 2019. Term ends: 2022[10].

Principal position: Chief Executive Officer, Galliance.

Other directorship: Chairman, Racilia.

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

Skills and experience: Born in 1965. Engineer graduate from Ecole Polytechnique and *Ecole Nationale des Ponts et Chaussées*. Master of Science in Engineering Management from the University of Stanford. Within the ArcelorMittal group, he managed various operations in Europe, Africa and CIS; he was a member of ArcelorMittal Management Council until 2013. Chief Executive Officer of Nexans from 2014 to 2018, after joining the company in 2013 as Chief Operating Officer. He has been the Chairman of Racilia since 2019 and was appointed Chief Executive Officer of Galliance in 2020.

2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Racilia. Chief Executive Officer: Galliance.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorship outside of the HSBC Group:** Chairman: Racilia
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorship outside of the HSBC Group:** Chief Executive Officer: Nexans.
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorship outside of the HSBC Group:** Chief Executive Officer: Nexans.

Lucile Ribot

Independent Director

Member of the Audit Committee

First elected: 2016. Last re-elected: 2020. Term ends: 2023.

Other directorships: Director, Imerys[11]. Director, Kaufman & Broad SA[11]. Directorship expired in 2021 : Member of the Supervisory Committee: Acropole Holding SAS. Member of the Supervisory Board: *Siaci Saint Honoré.*

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

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

2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: Imerys, Kaufman & Broad SA. Member of the Supervisory Committee: Acropole Holding SAS, *Siaci Saint Honoré.*
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: SoLocal Group, Imerys, Kaufman & Broad SA.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: SoLocal Group, Imerys, Kaufman & Broad SA.
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Management Board: Fives. Member of the Management Board and Chief Executive Officer: Novafives. Director: Fives DMS, Fives Pillard, FL Metal, Fives Landis Limited, Fives UK Holding Limited.

Carola von Schmettow

Director

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

Other directorships : Member of the Board, Sieghardt-Rometsch-Stiftung, Deputy Chair of the Board of Trustees, Kaiserswerther Diakonie. Member of the Board of Trustees, ZEIT-Stiftung. Member of the Board of Trustees, Fritz-Thyssen-Stiftung. Directorships expired in 2021: Chairman of the Management Board, HSBC Trinkaus & Burkhardt AG. Chairman of the Exchange Council, EUREX. Member of the Exchange Council, Frankfurt Stock Exchange. Member of the Presidency, Association of German Banks

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

Skills and Experience: Born in 1964. German nationality. Master in Mathematics from the University Heinrich-Heine of Düsseldorf and Master in Music from the University Robert Schumann of Düsseldorf.

[10] *Director standing for re-election at the Annual General Meeting to be held on 11 March 2022.*
[11] *Listed Company.*

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

2020	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG. Member of the Board: Sieghardt-Rometsch-Stiftung, Deputy Chair of the Board of Trustees: Kaiserswerther Diakonie. Member of the Board of Trustees: ZEIT-Stiftung. Member of the Presidency: Association of German Banks.
2019	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG. Member of the Board: Sieghardt-Rometsch-Stiftung. Deputy Chair of the Board of Trustees: Kaiserswerther Diakonie. Member of the Board of Trustees: ZEIT-Stiftung. Member of the Presidency: Association of German Banks.
2018	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG, BVV. Member of the Board: Sieghardt-Rometsch-Stiftung, Deputy Chair of the Board of Trustees: Kaiserswerther Diakonie. Member of the Board of Trustees: ZEIT-Stiftung.
2017	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG, BVV. Member of the Board: Sieghardt-Rometsch-Stiftung. Deputy Chair of the Board of Trustees: Kaiserswerther Diakonie. Member of the Board of Trustees: ZEIT-Stiftung.

Brigitte Taittinger

Independent Director

First elected: 2008. Last re-elected: 2019. Term ends: 2022.

Other directorships: Member of the Board of Directors, Centre Georges Pompidou. Director, Fnac Darty[12]. Director, Suez[12].

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

Skills and Experience: Born in 1959. Graduated from the Institut d'Etudes Politiques de Paris and degree in History. Advertising Manager for Publicis from 1984 to 1988. Marketing Department of *Groupe du Louvre* from 1988 to 1991. Chairman and CEO of Annick Goutal from 1991 to 2012. From 2013 to 2017, Director of Strategy and Development at Sciences Po, Paris.

2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Fnac Darty, Suez.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Fnac Darty, Suez.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Fnac Darty, Suez.
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Fnac Darty.

Angélique Terrazzino

Director elected by employees

First elected: 2021. Term ends: 2022.

Principal position: Senior member of the Mortgage Back office team, HSBC Continental Europe, Mulhouse.

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

Skills and experience: Born in 1977. Graduated of a BTS specialising in Sales Force. In December 2005, she joined HSBC as a Wealth Relationship Manager. She has been a Senior member of the Mortgage Back office team, HSBC Continental Europe since 2014.

2020	–
2019	–
2018	–
2017	–

Lucie Thalamas Dit Barathe

Director elected by employees

First elected: 2019. Term ends: 2022.

Principal position: Sales Assistant, Business Banking Centre Paris Hauts-de-France, Commercial Banking, HSBC Continental Europe.

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

Skills and experience: Born in 1966. Graduated of a BTS in Executive Secretary. Since she joined HSBC in 1987, she held positions as Branch Supervisor and Sales Assistant as well as

[12] *Listed Company.*

Back-Office Manager in the Commitments department within the Retail Banking and Commercial Banking networks.

2020	**Directorship in the HSBC Group**: Director elected by employees : HSBC Continental Europe.
2019	**Directorship in the HSBC Group**: Director elected by employees : HSBC Continental Europe
2018	–
2017	–

Board diversity

The diversity policy of the management body, updated by the Board at its meeting on 23 July 2021, aims to reach a balance and a complementarity of age, gender, geographic, professional and educational experience, independence, seniority in the mandate and representation of employees.

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

The Board includes four different nationalities and nearly two-thirds of Directors have international experience. On 31 December 2021, the average age of the Directors in office is 59.9, slightly down from 60.6 at 31 December 2020 and their average seniority in the function is nearly seven years, stable compared to the previous year.

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

Independent Directors

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

Based on the Nomination and Corporate Governance Committee's report, the Board of Directors reviewed the situation of each of its members as at 31 December 2021 in the light of these criteria. It considered that nine Directors can be deemed independent. Three Directors have served on the Board for more than 12 years; however, the Board of Directors found that this criterion alone did not call into question their independence vis-à-vis the company. 60 per cent of the Directors were independent.

Board evaluation

Pursuant to HSBC Group's policy, a Board assessment was conducted internally in July 2021, under the responsibility of the Nomination and Corporate Governance Committee and on the basis of a questionnaire covering the following themes and covering the Board and the Board Committees: strategy; risk and financial performance; composition and structure; management performance, executive oversight, talent and succession; corporate culture and conduct; meeting process and role of the Chair; role of the Company Secretary; self-assessment, training and succession of Directors; behaviours; culture and effectiveness.

Results of this evaluation and the update on main actions implemented further to the evaluation conducted the year before were discussed by the Nomination and Corporate Governance Committee and then by the Board of Directors at its meeting of 23 July 2021.

The overall opinion regarding the Board and its Committees as well as their operations remains broadly positive. Proposals were discussed by the Nomination and Corporate Governance Committee and the Board, which decided to implement certain recommendations relating to the time made available for discussions during Board meetings and certain skills to be favored in the succession plan for Directors.

Directors' training and information

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

Upon recommendation of the Nomination and Corporate Governance Committee, the Board updated the policy on training of the management body's members at its meeting on 12 February 2021.

According to this policy, new Directors, when taking up duty, receive an information pack on HSBC Continental Europe, including, among others, legal information about the company and the role of directors, as well as the latest Universal Registration Document and minutes of Board meetings for the past 12 months. In addition, the Company Secretary organises, to the new Director's intent and depending on his/her needs and priorities, a programme of training sessions with HSBC Continental Europe's main executives in the business lines and functions. It is also offered to Directors in office to attend these sessions.

In 2021, a complete training program was organised as part of the arrival of a new Director elected by the employees to the Board and to which all the Directors in office were invited. In addition, a training session was dedicated to recovery and resolution planning. Furthermore, Directors took training, during the year, in the form of e-learning on risk management, sustainable development, health, safety and wellbeing, data privacy and cybersecurity, financial crime risk, including anti money laundering, corruption and fraud, international sanctions and tax transparency, conduct and harassment at work.

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

Furthermore, a forum was organised for Audit and Risk Committees Chairs of the principal European entities of the HSBC Group.

Directors' remuneration

The maximum total remuneration payable each year to Directors was fixed at EUR 700,000, as decided by the Annual General Meeting of 15 May 2017.

This remuneration is allocated according to the following rules, decided by the Board of Directors at its meeting on 8 February 2019:

- each Director is allocated an annual flat fee of EUR 35,000, paid at the conclusion of the Annual General Meeting;
- the additional annual flat fee paid to Board Committees members amounts to:
  - EUR 25,000 for the Chairmen of the Audit Committee and of the Risk Committee;

- EUR 15,000 for the members of the Audit Committee and of the Risk Committee;
- EUR 7,000 for the Chairmen of the Nomination and Corporate Governance Committee and of the Remuneration Committee;
- EUR 6,000 for the members of the Nomination and Corporate Governance Committee and of the Remuneration Committee.

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

In 2021, in respect of 2020, Jean Beunardeau, James Emmett, Nuno Matos, Laurence Rogier and Carola von Schmettow renounced the payment of their remuneration in respect of their directorship in HSBC Continental Europe.

It also has to be noted that, according to this rule, and until the end of his office on 15 July 2021, Samir Assaf had not received any remuneration from HSBC Continental Europe for his office as Chairman of the Board or Director.

Likewise, since his appointment as Chairman of the Board of Directors as of 15 July 2021, Jean Beunardeau has received compensation solely for his role as Vice Chairman Global Banking Europe and does not receive compensation in the context of his role as Chairman of the Board and as Director.

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

The total Directors' remuneration net of social contributions, income tax prepayment and withholding tax to be paid in 2022 in respect of 2021 amounts to EUR 0.46 million, to be compared to EUR 0.44 million paid in 2021 in respect of 2020.

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

	Remuneration in respect of the directorship paid in 2020 in respect of 2019	**Remuneration in respect of the directorship paid in 2021 in respect of 2020**	Other compensation paid in 2020[1]	**Other compensation paid in 2021[1]**
Directors performing their principal position in an entity of the HSBC Group				
Jean Beunardeau[2]	—	**—**	EUR 2,305,386	**EUR 1,088,268**
James Emmett[3,4]	—	**—**	GBP 276,890	**—**
Nuno Matos[3,5]	—	**—**	GBP 1,236,953	**GBP 479,407**
Directors elected by the employees				
Ibtissam Bara[6, 7]	EUR 21,735	**—**	—	**—**
Ludovic Bénard[6, 7]	EUR 25,461	**—**	—	**—**
Xavier Bertrand[6, 7]	EUR 21,735	**—**	—	**—**
Christine D'Amore[7, 8]	EUR 7,245	**EUR 28,980**	—	**—**
Laurent Lagueny[7, 8, 9]	EUR 7,245	**EUR 33,534**	—	**—**
Philippe Purdy[7, 10]	EUR 28,980	**EUR 19,320**	—	**—**
Lucie Thalamas Dit Barathe[7, 8]	EUR 7,245	**EUR 28,980**	—	**—**
Angélique Terrazzino[11]	—	**—**		
Directors not performing executive duties within the HSBC Group[12]				
Paule Cellard	EUR 41,125	**EUR 35,000**	—	**—**
Lindsay Gordon	EUR 65,400	**EUR 65,400**	—	**—**
Philippe Houzé	EUR 34,300	**EUR 34,300**	—	**—**
Anne Méaux[13]	EUR 2,042	**—**	—	**—**
Thierry Moulonguet	EUR 52,500	**EUR 52,500**	—	**—**
Stephen O'Connor[14]	—	**—**		
Dominique Perrier	EUR 28,875	**EUR 35,000**	—	**—**
Arnaud Poupart-Lafarge	EUR 28,875	**EUR 40,950**	—	**—**
Lucile Ribot	EUR 41,125	**EUR 35,000**	—	**—**
Carola von Schmettow[15]	—	**—**		
Brigitte Taittinger	EUR 24,500	**EUR 24,500**	—	**—**
Jacques Veyrat[16]	EUR 32,900	**EUR 2,742**	—	**—**

1 *Fixed and other fixed remuneration, variable remuneration and benefits in kind.*
2 *End of his term of office as Chief Executive Officer on 15 July 2021. Chairman of the Board of Directors since 15 July 2021. Information on his remuneration as Chief Executive Officer are available in the Remuneration section from page 42.*
3 *Compensation shown are paid by other HSBC Group companies in respect of his/her executive functions within the Group.*
4 *Resignation from his directorship on 16 March 2020.*
5 *Co-optation on 30 April 2020. Resignation from his directorship on 13 February 2021.*
6 *End of Directorship on 26 September 2019.*
7 *Renounced remuneration to the benefit of a trade union organisation, net of social contributions.*
8 *Election by employees on 26 September 2019.*
9 *End of his directorship on 31 August 2021.*
10 *Died on 9 September 2020.*
11 *Appointment as of 1 September 2021 in replacement of Laurent Lagueny who resigned.*
12 *Amounts paid net of social contributions, income tax prepayment, and, where applicable, withholding tax.*
13 *Resignation from her directorship on 23 January 2019.*
14 *Co-optation on 13 February 2021.*
15 *Did not receive remuneration from controlled companies by HSBC Continental Europe nor from companies which control HSBC Continental Europe, until the end of her employment within the HSBC Group on 30 April 2021.*
16 *Resignation from his directorship on 6 February 2020.*

Duties and procedures of the Board of Directors

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

- it constructively challenges the strategy and determines strategic orientations, on the basis of the strategy formulated by General Management and oversees and monitors their implementation. It approves strategic investments/divestments and all transactions liable to impact earnings significantly;
- it oversees and monitors management decision-making and actions and provides effective oversight of the effective managers and constructively challenges and critically reviews proposals and information provided by the effective managers, as well as their decisions;
- it oversees and monitors that HSBC Continental Europe's strategic objectives, organisational structure and risk strategy, including its risk appetite and risk management framework, as well as other policies (e.g. remuneration policy) and the disclosure framework are implemented consistently;
- it monitors and supervises major risks and reviews regular risk management reports, setting out the risks involved in the HSBC Continental Europe's business and results;
- it monitors that the risk culture is implemented consistently;
- it sets HSBC Continental Europe's values and principles and oversees the implementation and maintenance of a code of conduct or similar and effective policies to identify, manage and mitigate actual and potential conflicts of interest;
- it oversees the integrity of financial information and reporting, and the internal control framework, including an effective and sound risk management framework;
- it ensures that the heads of internal control functions, namely the Chief Risk Officer, the Head of Compliance and the Head of Internal Audit, are able to act independently and, regardless the

responsibility to report to other internal bodies, business lines or units, can raise concerns and warn the Board where necessary when adverse risk developments affect or may affect the institution;

- it deliberates on all questions pertaining to its legal and regulatory obligations and those stemming from its articles of association;
- it cares about HSBC Group's reputation in Continental Europe.

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

Board of Directors' work

The Board of Directors met eleven times during 2021. The average attendance rate was 93 per cent, compared to 10 meetings with an average attendance rate of 88 per cent in 2020:

- 12 February 2021 (attendance rate: 100 per cent);
- 23 February 2021 (attendance rate: 93 per cent);
- 30 April 2021 (attendance rate: 100 per cent);
- 9 June 2021 (attendance rate: 87 per cent);
- 18 June 2021 (attendance rate: 93 per cent);
- 23 July 2021 (attendance rate: 93 per cent);
- 30 July 2021 (attendance rate: 87 per cent);
- 29 September 2021 (attendance rate: 80 per cent);
- 29 October 2021 (attendance rate: 100 per cent);
- 22 November 2021 (attendance rate: 87 per cent);
- 9 December 2021 (attendance rate: 100 per cent).

Impact of the Covid-19 pandemic on the Board's work

Due to the Covid-19 pandemic context which prevailed during the year, and since March 2020, the Board continued to meet by means of teleconference, with the exception of the meeting of 29 October, which was held in both face-to-face and by means of teleconference. These arrangements have not had a negative impact on the Board's ability to carry out its work and discharge its usual responsibilities.

As part of its work, the Board remained attentive to the evolution of the impacts and risks associated with the Covid-19 pandemic.

Businesses and strategy

Throughout 2021, the Board monitored the implementation of the strategy, approved in July 2020 and which is in line with that of the HSBC Group, and, first of all, the progress of the projects it had approved during the 2020 financial year. In addition, it met whenever necessary in order to review the various transformation projects and to approve the decisions that fell within its remit. It was informed of the governance put in place to manage the transformation in a transversal manner as well as the various projects on an individual basis.

It was therefore kept regularly informed of the progress and the outcome of the strategic review of the retail banking activities in France and approved the disposal of these activities, including the execution of a Memorandum of Understanding in June 2021 and then of a Framework Agreement in November 2021.

Furthermore, in order to meet the European regulatory requirements applying to banking groups having their registered office outside the European Union from the end of 2023, the HSBC Group has decided to designate HSBC Continental Europe as its intermediary holding company within the European Union. The Board therefore reviewed and approved the principle of several projects in this context and contributing to the simplification of the operational structure of the HSBC Group in Continental Europe:

- the acquisition of the activities of the HSBC Group in Germany and their integration into a new branch of HSBC Continental Europe in Germany;
- the acquisition of HSBC Bank Malta p.l.c.;
- the acquisition of HSBC Private Bank (Luxembourg) S.A.

Moreover, as part of the transformation of wealth management activities in Continental Europe, the strategy is to leverage on the infrastructure of HSBC Private Bank (Luxembourg) S.A. and the Board approved the sale of the Private Banking activities of HSBC Continental Europe to a new branch in France of HSBC Private Bank (Luxembourg) S.A.

These transactions and reorganisations are subject to obtaining the necessary regulatory approvals.

Furthermore, the Board reviewed and approved the IT strategy.

At each of its meetings, the Board monitored the progress of the business and ensured the sustainability of the model being put in place.

Finance

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

At its meeting on 12 February 2021, the Board reviewed and approved the budget, the capital and liquidity plans and the risk appetite for 2021, to which it had been able to contribute following the presentation of preliminary versions made at its meeting on 23 October 2020. Likewise, at its meeting on 29 October 2021, it reviewed initial versions of the budget, the capital and liquidity plans as well as the risk appetite for 2022 financial year.

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

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

Finally, the Board monitored the progress of work on recovery and resolution planning and approved the recovery plan before its submission to the European Central Bank. On 3 December 2021, along with a number of members of the Executive Committee, the Chairmen of the Board, the Audit Committee and the Risk Committee participated in a simulation exercise of this recovery plan, which aimed to test operability.

Risk management

At each quarterly meeting, the Board reviewed the Group's risk position, and in particular financial risks such as stress test, credit, market, model, capital, liquidity and interest rate risk, as well as non-financial risk, including operational, resilience, security and fraud, information systems, litigation, fiscal or people risks. For this purpose, it is supported in particular by the core risk reports (risk map, top and emerging risks and risk appetite statement) and by the reports given at the meetings by the Chief Risk Officer and the Chair of the Risk Committee.

The Board paid particular attention to the stress test carried out by the EBA, its results and the actions decided by management afterwards.

In addition, it reviewed the updates to the risk management framework and policies and decided to adjust certain risk appetite thresholds during the year. The Directors have also access to the Risk Committee's supporting documentation.

Furthermore, the Head of Compliance presented his annual report to the Board at the meeting held on 29 October 2021.

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

The work of Internal Audit, in particular the reports that were the subject of an adverse graded and the evolution in the number of open recommendations, as well as the resources of Internal Audit were commented regularly, in particular by the Chairman of the Audit Committee. In addition, the Head of Internal Audit presented his annual report to the Board at its meeting on 12 February 2021.

Regulatory environment and supervision

The Board closely followed the engagements with the various supervisors and in particular the findings of their inspection missions, the follow-up letters received as well as the HSBC Continental Europe's responses. In particular, the Board approved the responses to letters from the European Central Bank relating to credit risk management.

On 12 February 2021, the Joint Supervisory Team of the European Central Bank and the ACPR presented to the Board the results of its work carried out in 2020 and its priorities, its expectations and its supervisory programme for 2021 enabling an exchange of views with the Directors.

Governance

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

In particular, the Board deliberated and approved the changes of Chairman of the Board and of Chief Executive Officer with effect from 15 July 2021 and the appointment of a new Chief Risk Officer from 1 October 2021.

In addition, it approved the reports of the Board of Directors to the General Meeting and on corporate governance for the 2020 financial year, the half-yearly report of the Board at 30 June 2021 as well as the publications relating to the annual and half-yearly results. During 2021 financial year, the Board authorised two new related-party agreements and examined the agreements entered into and authorised by the Board during previous financial years and whose execution has continued, in accordance with Article L. 225-40-1 of the French Commercial Code.

The Board also reviewed and updated the corporate governance policies for which it is responsible, including the Board's internal rules, the Board's conflict of interest policy, the internal governance policy, and the management body diversity policy. It also examined the new governance rules applying to HSBC Group entities (Subsidiary Accountability Framework) and made decisions on how to apply them at HSBC Continental Europe.

The work of the Board Committees was set out in regular, detailed reports from their respective Chairmen and was debated during Board meetings. In this regard, the Board was kept informed at each meeting about the main topics discussed and points of action identified by the Audit Committee and by the Risk Committee, particularly with regards to supervision, accounting projects and matters, risks, control and risk management system, internal audit, compliance and permanent control.

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

Board Committees

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

Audit Committee

Composition of the Audit Committee

Chairman	
Thierry Moulonguet (independent)	Appointed in 2010 (Member from 2009 to 2010)
Members	
Lindsay Gordon (independent)	Appointed in 2013
Dominique Perrier (independent)	Appointed in 2019
Lucile Ribot (independent)	Appointed in 2017

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

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

Audit Committee's duties

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

The Committee in particular reviews:

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

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

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

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

Audit Committee's work in 2021

The Audit Committee met eleven times in 2021, with an attendance rate of 93 per cent, compared to four meetings with an attendance rate of 100 per cent in 2020:

- 9 February 2021;
- 22 February 2021;
- 15 March 2021;
- 8 April 2021;
- 28 April 2021;
- 16 June 2021;
- 20 July 2021;
- 21 September 2021;
- 26 October 2021;
- 17 November 2021;
- 6 December 2021.

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

In 2021, the Audit Committee devoted a significant part of its work to the various transformation projects of HSBC Continental Europe. It thus met, whenever necessary, and with the participation of the members of the Risk Committee, in order to examine these projects and make recommendations to the Board.

With regard to the usual work of the Committee, the first aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit Committee reviewed the parent-company and consolidated accounts, as well as the publications relating to the annual results. The Committee was informed by the Finance Department of the main accounting and tax points of attention and discussed the choices made by the company in drawing up its financial statements and verified the adequacy of provisions for identified risks, especially provisions for credit risks.

The Committee examined the budget for 2021 financial year and then the regular update of performance forecast at year-end. Throughout the year, it paid careful attention to monitoring the cost base and on recharges processes in place in the HSBC Group.

At each meeting, the Committee was informed of the situation in terms of solvability and capital of HSBC Assurances Vie (France) and of the changes in the models used to compute the PVIF as well as their impact on the P&L.

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

The second area of the Committee's work concerned controls. To this end, the Statutory Auditors commented on their management letter and the aspects subject to particular attention at the time of preparing the 2020 financial statements. Every quarter, the Statutory Auditors presented their diligences on the financial statements. The Committee discussed the Statutory Auditors' audit programme and independence, approved the fees paid in 2020 by the HSBC Continental Europe group to its Statutory Auditors. The Committee reviewed and authorised as necessary the non-audit services rendered by the statutory auditors.

The Committee was also informed of the results of controls conducted on financial statements, in particular regarding the deficiencies identified by these controls and progress in action plans. Within this framework, it reviewed the work carried out as part of the application of Sarbanes-Oxley and reviewed the points raised in the account controls certificates and by accounting assurance reviews, as well as implementation of the recommendations raised in the Statutory Auditors' management letters.

In terms of data management, the Committee examined the conclusions of the Deep dive carried out by the European Central Bank and of the Internal Audit missions on the application of BCBS239 and the General Data Protection Regulation as well as action plans put in place to implement the various recommendations. It was kept regularly informed of the progress of action plans relating to these missions and to data in general. In addition, it reviewed the evolution of data monitoring indicators.

At its meeting on 26 October 2021, the Committee examined the list of the related-party agreements authorised previously by the Board and still in force and made recommendations to the Board regarding the list update.

At its meeting on 20 July 2021, the Committee was given a presentation on the framework in place regarding whistleblowing and its results.

The third aspect of the Committee work concerned the detailed review, at each meeting, of Internal Audit work. It reviewed the findings of the main audit duties, particularly those calling particular attention. The Committee remained extremely attentive to the proper implementation of the audit recommendations and to the evolution of the human resources of Internal Audit. It has also approved the update of the audit charter and the 2021 annual audit plan.

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

Risk Committee

Composition of the Risk Committee

Chairman	
Lindsay Gordon (independent)	Appointed in 2015 (Member from 2013 to 2015)
Members	
Paule Cellard (independent)	Appointed in 2017
Thierry Moulonguet (independent)	Appointed in 2009 (Chairman from 2010 to 2015)

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

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

Risk Committee's duties

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

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

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

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

Risk Committee's work in 2021

The Risk Committee met eight times in 2021 with an attendance rate of 96 per cent, compared to five meetings with an attendance rate of 90 per cent in 2020:

- 10 February 2021;
- 29 March 2021;
- 15 April 2021;
- 26 April 2021;
- 7 June 2021;
- 19 July 2021;
- 21 September 2021;
- 25 October 2021.

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

At the end of its quarterly meetings and with the attendance of the Audit Committee members, the Risk Committee held regularly in camera sessions without HSBC Continental Europe management attending and, if applicable, with the Chief Risk Officer and the Chief Financial Officer only. In 2021, the Committee continued to monitor the impacts of the Covid-19 pandemic on HSBC Continental Europe risks, in particular in terms of credit, market, capital and liquidity.

The Committee also paid particular attention to monitoring HSBC Continental Europe's transformation projects, their management and the risks they entail, as well as IT strategy and IT risk management.

In line with its usual work, the Committee approved HSBC Continental Europe's risk appetite for 2021 and its subsequent updates, and then examined, at each of its meetings, the monitoring dashboard, in particular indicators which were not in line with the thresholds that had been set out. It also reviewed and approved the risk tolerance framework. At the end of the year, it examined a first draft regarding risk appetite for the year 2022. In addition to a summary on risks given by the Chief Risk Officer the Committee was informed, at each of its quarterly meetings, of the risk map, top and emerging risks facing it, as well as their assessment and the action plans which had been identified. The Committee was informed of the changes to the risk management framework and of the Risk Function's organisation.

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

- Credit risks, with an individual review of major exposures, changes in outstanding credit and non-performing advances by businesses, changes in risk-weighted assets and the evolution of the cost of risk, and worrying exposures and sectors.

  The Committee was informed of the communications with the supervisory authorities on credit;
- Market risks, including their trends compared with limits, changes in exposure, the setting of limits, changes in market activities' risk-weighted assets and the results of internal stress tests;
- Liquidity, capital and interest rate in the banking book risks. In particular, the Committee approved the Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') reports, after a session dedicated to the examination of these draft reports, as well as the capital and liquidity plans and their execution afterwards;
- Stress testing, in particular the one carried out by the EBA. The Committee also monitored the work carried out as part of the internal stress testing programme as well as the results of these tests.

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

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

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

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

In the area of compliance risk management, the Committee took note of the quarterly reports, which set out the main new matters and updates on those already detailed in the course of previous meetings. In particular, the Committee closely followed the evolution of the organisation of the Compliance Department, the system and tools, the implementation of recommendations issued by the various control bodies in terms of compliance, as well as exchanges with the control and supervision authorities and missions carried out by the latter in these areas. It also examined the Ombudman's annual report for the year 2020.

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

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

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

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

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

Nomination and Corporate Governance Committee

Composition of the Nomination and Corporate Governance Committee

Chairman	
Philippe Houzé (independent)	Appointed in 2009 (Member from 1999 to 2009)
Members	
Jean Beunardeau	Appointed in 2021
Arnaud Poupart-Lafarge (independent)	Appointed in 2020

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

At its meeting on 9 June 2021 and upon recommendation from the Nomination and Corporate Governance Committee, the Board of Directors decided to appoint Jean Beunardeau as a member of the Committee as of 15 July 2021, replacing Samir Assaf.

At its meeting on 23 July 2021, the Board of Directors decide to change the name of the Nomination Committee into Nomination and Corporate Governance Committee in order to reflect its responsibilities related to corporate governance.

Nomination and Corporate Governance Committee's duties

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

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

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

Nomination and Corporate Governance Committee's work in 2021

The Committee met five times in 2021, on 3 February, 27 April, 31 May, 9 July and 7 December, with an attendance rate of 100 per cent, compared to four meetings with an attendance rate of 100 per cent in 2020. Its main work concerned:

- the monitoring of the individual and collective suitability of the management body pursuant to the suitability assessment policy and assessments and reassessments required by the criteria defined in this policy;
- reflections, and recommendations to the Board, on the membership of the management body in its supervisory function – including that of the Board Committees – and management function, based on the suitability assessment and diversity policies, following in particular the resignations of Samir Assaf, Laurent Lagueny and Nuno Matos, leading the Committee to propose to the Board the co-optation of a new Director – Stephen O'Connor – and the appointment of a new Chairman of the Board – Jean Beunardeau – and of a new Chief Executive Officer – Andrew Wild;
- proposals to the Board on the renewal of the term of office of a Director expiring at the Annual General Meeting to be held in 2021;
- the follow-up of the nomination applications filed with the European Central Bank and the recommendations received in return;
- examining the new governance rules applying to the HSBC Group entities (Subsidiary Accountability Framework) and their impacts on the composition of the Board, and formulating recommendations to the Board on how to apply them at HSBC Continental Europe;
- the review of the results of the evaluation of the Board functioning and proposal to the Board of actions to implement;
- the review and proposal to the Board to update the Board's conflict of interest policy and to approve the updated register of potential situations of conflict of interest;
- the review of the first part of the report on corporate governance for the 2020 financial year;
- the review and proposals to the Board for updating the Board internal rules and the Board policy regarding diversity of the management body.

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

Remuneration Committee

Composition of the Remuneration Committee

Chairman	
Philippe Houzé (independent)	Appointed in 2009 (Member from 1999 to 2009)
Members	
Paule Cellard	Appointed in 2021
Christine D'Amore (elected by employees)	Appointed in 2021
Arnaud Poupart-Lafarge (independent)	Appointed in 2020

In accordance with the Governance rules applicable to the HSBC Group entities, at least two members of the Remuneration Committee are independent non-executive Directors.

Upon recommendation from the Nomination and Corporate Governance Committee, the Board of Directors decided, during the 2021 financial year, to appoint as members of the Remuneration Committee:

- Paule Cellard, replacing Samir Assaf;
- Christine D'Amore, replacing Laurent Lagueny.

Remuneration Committee's duties

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

- supporting the Board in overseeing the implementation and operation of the HSBC Continental Europe's remuneration policy (the 'Policy') in compliance with HSBC's Group remuneration policy, as approved by the Group Remuneration

Committee and the shareholders of the HSBC Holdings plc in general meetings;

- ensuring the Policy complies with all relevant local regulations;
- ensuring the Policy is appropriate to attract, retain and motivate directors and senior management of the quality required to run HSBC Continental Europe successfully.

The Committee collaborates with other Board committees whose activities may have an impact on the design and proper functioning of remuneration policies and practices (in particular, Risk Committee).

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

Remuneration Committee's work in 2021

The Remuneration Committee met twice in 2021 with an attendance rate of 100 per cent, compared to one meeting with an attendance rate of 100 per cent in 2020. Its main work concerned:

- the review of the general remuneration policy, in respect of 2020 year, taking into account regulations concerning compensation, in particular risk control and the contribution of the Risk and Compliance functions to the process for determining variable compensations, the review of the list of employees, identified as not entirely complying with the risk and compliance rules and impacts on their remuneration, as well as the review of the rules and remuneration for employees defined as risk takers;
- the review of the 20 highest remunerations in respect of the 2020 year;
- compensation proposals for the Chief Risk Officer and the Head of Compliance;
- proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the remuneration of Jean Beunardeau, Chris Davies and Andrew Wild in respect of 2020 and setting out the fixed and variable elements of their remuneration and the number of shares to be awarded to them (see section 'Executive Directors' compensation');
- proposals to allow the Board to set the new terms and conditions of the remuneration of Jean Beunardeau and Andrew Wild in the context of changes in their functions (see section "Executive Directors' compensation");
- the review of the section of the corporate governance report on remuneration.

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

General Management

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

Organisation of the General Management

General Management leads the Company and acts as its representative *vis-a-vis* third parties. General Management comprises the two Effective managers, i.e. the Chief Executive Officer, Andrew Wild, who is assisted by a Deputy Chief Executive Officer, Chris Davies.

Chief Executive Officer's powers

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

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

Even if the Chief Executive Officer has the widest powers to act on the company's behalf, he has delegated certain powers to employees under his immediate direct authority, who may in turn sub-delegate some of these powers. These delegated powers must be exercised within the bounds of the person's responsibilities and in accordance with the HSBC Group principles and practices. A person with delegated powers may not individually commit HSBC Continental Europe to sums above EUR 1,500,000.

There are specific delegated powers concerning credit and market risk, for which the CEO delegates his powers.

Presentation of the members of General Management

The biography of the Chief Executive Officer, Andrew Wild, is available on page 25.

Christopher Davies

Deputy Chief Executive Officer

Principal position: Deputy Chief Executive Officer, HSBC Continental Europe, in charge of the Network Countries perimeter for Continental Europe and Transformation.

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

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

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

2020	**Directorships in the HSBC Group:** Deputy CEO: HSBC Continental Europe. Chairman: HSBC Bank (RR) (Limited Liability Company). Director: HSBC Bank Bermuda Limited, HSBC Europe B.V, Midcorp Limited, HSBC Bank Malta p.l.c.
2019	**Directorships in the HSBC Group:** Deputy CEO: HSBC Continental Europe. Chairman: HSBC Bank (RR) (Limited Liability Company). Director: HSBC Bank Bermuda Limited, HSBC Bank Malta p.l.c., HSBC Europe B.V, Midcorp Limited. Member of the Supervisory Board: HSBC Bank Polska S.A.
2018	–
2017	–

Executive Committee

The General Management is assisted by an Executive Committee whose membership was as follows as at 31 December 2021:

Andrew Wild	Chief Executive Officer
Chris Davies	Deputy Chief Executive Officer
Anne-Lise Bapst	Head of Communication
Andrew Beane	Head of Commercial Banking
Laurence Bogni-Bartholmé	Chief Risk Officer
Marwan Dagher	Head of Markets and Securities Services
Olfert de Wit	Chief Operating Officer
François Essertel	Head of Private Banking
Thuy-Tien Gluck	Head of Corporate Sustainability
Lisa Hicks	Head of Strategy and Organisation
Marc de Lapérouse	Head of Legal
François Mongin	Head of Internal Audit
Camille Olléon	Head of Human Resources
Matteo Pardi	Head of Asset Management
Geneviève Penin	Head of Corporate Governance & Secretariat and Company Secretary
Jean-Manuel Richier	Co-Head of Global Banking
Laurence Rogier	Head of Insurance
Simon Spilsbury	Head of Compliance
Joseph Swithenbank	Chief Financial Officer
Anna Tavano	Co-Head of Global Banking
Thomas Vandeville	Head of Retail Banking and Wealth Management

Every year, HSBC Continental Europe performs succession plans for roles considered as key with clear rules guiding this exercise in order to have robust succession plans, promoting gender balance as well as internal promotion. It is required to have at least four successors per role and a female successor for each of these roles as well as a breakdown of internal recruitments vs. external recruitments of 80 to 20. The succession plans were reviewed in 2021 on these bases, including in respect of the members of the Executive Committee. Additional information on the diversity policy are available in the chapter on Sustainability on page 67.

Additional information

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

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

During its meeting on 29 October 2021 the Board conducted its annual review of agreements already entered into that it had authorised previously and still in force.

Agreements authorised in 2021

Two new agreements subject to the provisions of article L. 225-38 of the French Commercial Code were approved by the HSBC Continental Europe's Board of Directors during 2021:

- with HSBC Global Services (Hong Kong) Limited, HSBC Global Services (UK) Limited, HSBC Group Management Services Limited, HSBC Global Services Limited, and HSBC Service Delivery (Polska) sp. z o.o. and in which HSBC Holdings plc, a company controlling HSBC Bank plc, shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights, is indirectly interested: an agreement (Side Letter) relating to the pre-payment by HSBC Continental Europe to five ServCo Group entities of four months' charges for the services provided, in order to meet contingency funding requirements to ensure Operational Continuity in Resolution ('OCiR'). The purpose of the contingency funding is to ensure the availability of sufficient financial resources in the Group's Services Companies to safeguard the provision of services that the HSBC Group relies on throughout a stress or resolution event (agreement approved by the Board at its meeting on 29 September 2021). This agreement was signed on 29 September 2021.
- with Jean Beunardeau, Chairman of the Board: the reactivation as of 15 July 2021, of his employment agreement which had been suspended since his appointment as Deputy Chief Executive Officer in 1 February 2010 (agreement approved by the Board at its meeting on 9 June 2021). This agreement was signed on 19 July 2021.

Agreements entered into in prior years and still in force and effect during 2021

Agreements entered into by HSBC Continental Europe and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2021. These were a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities and a group tax relief agreement, entered into in 2001.

The agreement renewed in 2015 between HSBC Holdings plc and HSBC Continental Europe, granting HSBC Continental Europe and its subsidiaries use at no charge of the HSBC brand, remained in full force and effect during 2021.

The indemnity agreement entered into in 2019 between HSBC Continental Europe and HSBC Bank plc and HSBC UK Bank plc in order to cover HSBC Bank plc and HSBC UK Bank plc for any amount that they may have to pay under obligations in which they remain debtors to the beneficiaries, that is clients entered into a relationship with HSBC Continental Europe as HSBC Bank plc and HSBC UK Bank plc would no longer be authorised to provide certain international trade instruments and services to companies located in the European Economic Area after the exit of United Kingdom from the European Union.

Additional information about the members of General Management and of the Board of Directors

Absence of conflicts of interest

To the Board's knowledge, there is no conflict of interest between the duties of Board members, including Executive Directors, with respect to HSBC Continental Europe and their private interests and/or other duties.

For the record, it has to be noted that at 31 December 2021, Jean Beunardeau is Chairman of the Board of HSBC Continental Europe and Vice Chairman Global Banking Europe.

To the knowledge of HSBC Continental Europe, there is:

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

The Board policy on conflicts of interest annexed to the Board's internal rules was revised during 2021 financial year. It covers situational and transactional conflicts of interest and includes in particular a list of questions to assist the Directors in identifying situations of conflict of interest, examples of situations that may or may not give rise to conflicts of interest, a procedure dealing with the declaration of a potential conflict of interest and a procedure to guide the Board when considering such a declaration. In order to strengthen the conflict of interest avoidance mechanism, Directors must seek authorisation from the Board before accepting a mandate or position in a company or organisation outside the HSBC Group and a process of authorisation, review and possible withdrawal of authorisation by the Board is in place.

Absence of convictions

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

Shareholders' general meeting

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

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

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

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

	With pre-emptive rights
Issue of shares for cash or by capitalising reserves	
Date of authority	March 13, 2020
Expiry date	May 13, 2022
Maximum nominal amount	EUR 500 million
Used amount	EUR 0 million

Compensation

Compensation and benefits of Executive Directors

Remuneration package

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

The fixed component is determined in accordance with, on one hand, market practices with the help, if needed, of specialist consulting firms and the other hand, Group benchmarks.

The variable component is determined on the basis of the overall HSBC Holdings and HSBC Continental Europe performance and indicators covering 'Financial Performance' targets (revenues, costs, RWA reduction, return on capital, etc.), Non Financial Performance targets (customer satisfaction, employees'engagement, women representativity in the organisation, carbon reduction, sustainable finance, etc.), Risk and Internal Control targets (audits follow up, control of operational risks, management of compliance topics especially in Financial crime field, etc.), Personal targets (successful achievement of reorganisation projects, etc.). These indicators, embedded in a balanced-scorecard, are reviewed in comparison with the objectives set at the beginning of the year. All parameters taken into account result in a performance rating. The variable component also takes account of market trends and, if necessary, changes in regulations. In accordance with the HSBC Group's deferral rules, this variable component is paid partly in non-deferred and partly in deferred remuneration and partly in cash and partly in shares.

Deputy CEO as Head of International may also have specific objectives related to its scope of responsibility.

Award of shares

In 2021, Executive Directors benefited from the allocation of shares in HSBC Holdings plc in accordance with the HSBC Group's general policy.

With respect to 2021, HSBC Continental Europe Executive Directors received, as part of their variable remuneration, Restricted Shares, for which the only criterion is to be with the company at award date

Supplementary pension scheme

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

At 31 December 2021, Jean Beunardeau had accrued pension rights representing 12.1 per cent of his 2021 fixed remuneration and 5.6 per cent of his 2021 total remuneration.

The provision corresponding to the present value of these HSBC Continental Europe pension commitments has been recorded in the HSBC Continental Europe accounts at 31 December 2021, for an amount of EUR 5.82 million.

As at 31 December 2021, Andrew Wild, as new HSBC Continental Europe CEO had accrued pension rights representing less than 1 per cent of his 2021 fixed remuneration or 2021 total remuneration. Chris Davies is not entitled to this pension scheme, since he takes benefit of a UK pension schemes linked to its employment contract.

Remuneration

Jean Beunardeau, as Chairman of the Board of HSBC Continental Europe, does not receive any compensation or fees from HSBC Continental Europe. However, he is rewarded for his role as Vice Chairman Global Banking Europe.

The remuneration of Jean Beunardeau, and Andrew Wild as CEO of HSBC Continental Europe, and of Chris Davies Deputy CEO of HSBC Continental Europe are detailed on next pages.

Lastly, in terms of fringe benefits, Jean Beunardeau uses a car made available to him by the company for his professional needs and Andrew Wild is provided with a company car.

The following information is published in accordance with the provisions of article L. 225-102-1, paragraphs 1, 2 and 3 and article L. 225-184 of the French Commercial Code.It concerns remuneration paid by HSBC Continental Europe, the companies it controls and the companies that control it (the HSBC Group). The remuneration of the Executive Directors below is presented in accordance with the *Autorité des marchés* financiers recommendations of December 2009[13]. Tables 4, 5 and 9 of this recommendation are not applicable.

Summary of compensation awarded to each Executive Director

Chief Executive Officer[1]

	2018 Compensation paid in 2018 €	2019 Compensation paid in 2019 €	2020 Compensation paid in 2020 €	**2021 Compensation paid in 2021 €**
Jean Beunardeau				
Fixed remuneration	545,826	545,826	545,826	**295,656**
Fixed Pay Allowance 'Material Risk Taker'[2,3]	564,000	564,000	564,000	**305,500**
Variable remuneration in cash	272,000	251,697	239,112	**186,507**
Variable remuneration in shares[4]	272,000	251,697	239,112	**186,507**
Deferred variable remuneration in cash[5]	408,000	377,546	358,668	**279,761**
Deferred remuneration in shares without performance conditions[6]	408,000	377,546	358,668	**279,761**
Directors' fees[7]	—	—	—	**—**
Benefits in kind	—	—	—	**—**
Total	2,469,826	2,368,312	2,305,386	**1,533,692**

Chief Executive Officer[1] (continued)

	2018 Compensation for 2018 €	2019 Compensation for 2019 €	2020 Compensation for 2020 €	**2021 Compensation for 2021 €**
Jean Beunardeau				
Fixed remuneration	545,826	545,826	545,826	**295,656**
Fixed Pay Allowance 'Material Risk Taker'[2,3]	564,000	564,000	564,000	**305,500**
Variable remuneration in cash	251,697	239,112	186,507	**136,977**
Variable remuneration in shares[4]	251,697	239,112	186,507	**136,977**
Deferred variable remuneration in cash[5]	377,546	358,668	279,761	**205,466**
Deferred remuneration in shares without performance conditions[6]	377,546	358,668	279,761	**205,466**
Directors' fees[7]	—	—	—	**—**
Benefits in kind	—	—	—	**—**
Total	2,368,312	2,305,386	2,042,362	**1,286,042**

1 *Deputy Chief Executive Officer then Chief Executive Officer since 10 January 2012 up to 15 July 2021.*
2 *Fixed Pay Allowance awarded to certain 'Material Risk Takers.'*
3 *Fixed Pay Allowance awarded in form of cash on a monthly basis.*
4 *Shares that vest immediately and are subject to a 6 month's retention period for those granted until 2016 and one year for those granted from 2017.*
5 *Variable remuneration in cash deferred over five years (20 per cent per year will vest from year n+1).*
6 *Variable remuneration in shares without performance conditions deferred over five years (20 per cent per year from year n+1) and subject to a six months' retention period for awards granted until 2016 and one year for those granted from 2017.*
7 *Renounced the payment of his Directors' fees by HSBC Continental Europe (see page 31).*

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

Chief Executive Officer[1]

	2018	2019	2020	**2021**
	Compensation paid in 2018	Compensation paid in 2019	Compensation paid in 2020	**Compensation paid in 2021**
	€	€	€	**€**
Andrew Wild				
Fixed remuneration	395,000	469,117	491,072	**528,760**
Fixed Pay Allowance 'Material Risk Taker'[2,3]	98,000	98,000	98,000	**202,821**
Variable remuneration in cash	114,657	135,630	133,500	**107,100**
Variable remuneration in shares[4]	114,657	135,630	133,500	**107,100**
Deferred variable remuneration in cash[5]	76,438	90,420	89,000	**71,400**
Deferred remuneration in shares without performance conditions[6]	76,438	90,420	89,000	**71,400**
Directors' fees[7]	—	—	—	**—**
Benefits in kind[8]	4,626	4,626	4,626	**3,250**
Total	879,816	1,023,843	1,038,698	**1,091,831**

	2018	2019	2020	**2021**
	Compensation for 2018	Compensation for 2019	Compensation for 2020	**Compensation for 2021**
	€	€	€	**€**
Andrew Wild				
Fixed remuneration	395,000	469,117	491,072	**528,760**
Fixed Pay Allowance 'Material Risk Taker'[2,3]	98,000	98,000	98,000	**202,821**
Variable remuneration in cash	135,630	133,500	107,100	**125,811**
Variable remuneration in shares[4]	135,630	133,500	107,100	**125,811**
Deferred variable remuneration in cash[5]	90,420	89,000	71,400	**188,717**
Deferred remuneration in shares without performance conditions[6]	90,420	89,000	71,400	**188,717**
Directors' fees[7]	—	—	—	**—**
Benefits in kind[8]	4,626	4,626	4,626	**3,250**
Total	949,726	1,016,743	950,698	**1,363,887**

1 *Deputy Chief Executive Officer since 1 March 2015 and Chief Executive Officer from 15 July 2021.*
2 *Fixed Pay Allowance awarded to certain 'Material Risk Takers'.*
3 *Fixed Pay Allowance awarded in form of cash on a monthly basis.*
4 *Shares that vest immediately and are subject to a 12 months' retention period.*
5 *Variable remuneration in cash deferred over five years (20 per cent per year will vest from year n+1).*
6 *Variable remuneration in shares without performance conditions deferred over over five years (20 per cent per year from year n+1) and subject to a 12 months' retention period.*
7 *Renounced the payment of his Directors' fees by HSBC Continental Europe (see page 31).*
8 *Company car. As CEO, he is also entitled to an annual accommodation allowance, a medical cover and a tax assistance.*

Deputy Chief Executive Officer[1]

	2018	2019	2020	**2021**
	Compensation paid in 2018	Compensation paid in 2019	Compensation paid in 2020	**Compensation paid in 2021**
	€	€	€	**€**
Chris Davies				
Fixed remuneration		466,864.00	519,129	**526,248**
Fixed Pay Allowance 'Material Risk Taker'[2,3]		77,831.00	87,017	**89,231**
Variable remuneration in cash			146,623	**130,500**
Variable remuneration in shares[4]			146,623	**130,500**
Deferred variable remuneration in cash[5]			97,749	**87,000**
Deferred remuneration in shares without performance conditions[6]			97,749	**87,000**
Directors' fees[7]	—	—	—	**—**
Benefits in kind[8]				
Total		544,695.00	1,094,890	**1,050,479**

Deputy Chief Executive Officer[1] (continued)

	2018	2019	2020	**2021**
	Compensation for 2018	Compensation for 2019	Compensation for 2020	**Compensation for 2021**
	€	€	€	**€**
Chris Davies				
Fixed remuneration		466,864	519,129	**526,248**
Fixed Pay Allowance 'Material Risk Taker'[2,3]		77,831	87,017	**89,231**
Variable remuneration in cash		146,623	130,500	**155,957**
Variable remuneration in shares[4]		146,623	130,500	**155,957**
Deferred variable remuneration in cash[5]		97,949	87,000	**103,971**
Deferred remuneration in shares without performance conditions[6]		97,949	87,000	**103,971**
Directors' fees[7]	–	–	–	**–**
Benefits in kind[8]				
Total		1,033,439.00	1,041,146	**1,135,334**

1 Deputy Chief Executive Officer since 8 February 2019.
2 Fixed Pay Allowance awarded to certain 'Material Risk Takers'.
3 Fixed Pay Allowance awarded in form of cash on a monthly basis.
4 Shares that vest immediately and are subject to a 12 months' retention period.
5 Variable remuneration in cash deferred over five years (20 per cent per year will vest from year n+1).
6 Variable remuneration in shares without performance conditions deferred over over five years (20 per cent per year from year n+1) and subject to a 12 months' retention period.
7 As non Director he is not entitled to Directors' fees (see page 31).
8 Is entitled to an annual cost of living allowance, an accommodation allowance, a travel allowance, a medical cover and a tax assistance.

Shares awarded to each Executive Director in 2022 in respect of 2021 (Table 6)

HSBC Holdings plc shares without performance conditions (Table 6)

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date	Date of availability
Jean Beunardeau	March 2022	ND	EUR205,466	20% on each following dates:	20% on each following dates:
				March 2023	March 2024
				March 2024	March 2025
				March 2025	March 2026
				March 2026	March 2027
				March 2027	March 2028
Jean Beunardeau	March 2022	ND	EUR136,977	March 2022	March 2023
Andrew Wild	March 2022	ND	EUR188,717	20% on each following dates:	20% on each following dates:
				March 2023	March 2024
				March 2024	March 2025
				March 2025	March 2026
				March 2026	March 2027
				March 2027	March 2028
Andrew Wild	March 2022	ND	EUR125,811	March 2022	March 2023
Chris Davies	March 2022	ND	EUR103,971	20% on each following dates:	20% on each following dates:
				March 2023	March 2024
				March 2024	March 2025
				March 2025	March 2026
				March 2026	March 2027
				March 2027	March 2028
Chris Davies	March 2022	ND	EUR155,957	March 2022	March 2023

Performance shares which became available for each Executive Director in 2021 (Table 7)

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

HSBC Holdings plc shares vested for each Executive Director in 2021 (Table 8)

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Jean Beunardeau	29/2/2016	21,446	Performance shares
Jean Beunardeau	27/2/2017	10,165	—
Jean Beunardeau	28/3/2018	11,503	—
Jean Beunardeau	26/3/2019	12,249	—
Jean Beunardeau	24/2/2020	12,340	—
Jean Beunardeau	1/3/2021	38,078	
Andrew Wild	27/2/2017	1,722	—
Andrew Wild	28/3/2018	2,155	—
Andrew Wild	26/3/2019	2,933	—
Andrew Wild	24/2/2020	3,238	—
Andrew Wild	1/3/2021	22,303	
Chris Davies	27/2/2017	3,258	—
Chris Davies	26/2/2018	3,017	—
Chris Davies	26/3/2019	3,519	—
Chris Davies	24/2/2020	3,976	—
Chris Davies	1/3/2021	27,176	

1 *The shares awarded under the UK plan in 2017, 2018, 2019, 2020 and 2021 are available six or 12 months after the vesting.*

The shares awarded in 2017 were vested for 20 per cent in 2021

The shares awarded in 2018 were vested for 20 per cent in 2021.

The shares awarded in 2019 were vested for 20 per cent in 2021.

The shares granted in 2020 were vested for 20 per cent in 2021.

The shares awarded in 2021 were vested for 100 per cent in 2021.

HSBC Holdings plc free shares, without performance conditions, awarded in 2021 in respect of 2020, to the 10 employees whose number of awarded shares is the highest (Table 10)

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	1/3/2021	ND	EUR 2,823,199	March 2021 for 100% or March 2023 for 66% and March 2024 for 34% or March 2022 to 2026 for 20% per year or March 2022, 2023, 2024 per tiers	6 or 12 months after the award

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

HSBC Holdings plc free shares, without performance conditions, awarded in 2022 in respect of 2021, to the 10 employees whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	28/2/2022	ND	EUR3,513,575	March 2022 for 100% or March 2024 for 66% and March 2025 for 34% or March 2023 to 2027 for 20% per year or March 2023, to March 2026 for 25% per year	6 or 12 months after the award

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 47) vests immediately and is available for sale six months or a year after the vesting.*

HSBC Holdings plc free shares, without performance conditions, vested in 2021, for the 10 employees whose number of awarded shares is the highest

	Number of shares vested[1]	Vesting dates
Total value of the 10 highest awards of shares, vested in 2021 (employees or former employees)	494,406	
– *of which* *award 2018*	*53,069*	*11.03.2021*
award 2019	*120,435*	*12.03.2021*
award 2020	*56,756*	*24.02.2021*
award 2021	*264,146*	*01.03.2021*

1 *The shares awarded in 2018 and 2019 are available for sale six months after the vesting; those granted in 2020 are available 12 months after the vesting and those granted in 2021 under the UK plan are available for sale six or 12 months after the vesting.*

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

Executive Director Function First appointed Term ends	Employment contract	HSBC Continental Europe supplementary pension scheme [1]	Compensation or benefits due or that may be due upon termination or change in duties	Compensation due under terms of non-compete agreement	Participation in the share capital of the company and quantity of shares held
Jean Beunardeau Chief Executive Officer[2] 1 February 2010[3]	No	Yes	No	No	No
Andrew Wild Chief Executive Officer 15 July 2021	Suspended	Yes	No	No	No
Chris Davies Deputy CEO 8 February 2019	Not applicable	No	No	No	No

1 *See page 41.*
2 *CEO from 10 January 2012 up to 15 July 2021.*
3 *Date of appointment as Deputy CEO.*

Company Compensation policy

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

The compensation policy in place in HSBC Continental Europe falls within the framework of this global policy, while also ensuring that local regulations, in particular those arisen from European Directive CRD III of July 2010 repealed by the Directive CRD IV of June 2013, and repealed by the Directive CRD V of December 2020, since 1 January 2015 from AIFM Directive, since 1 January 2016 from Solvency II Directive and since 1 January 2017 from UCITS Directive are observed.

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

Governance

Two committees – the People Committee, in its limited perimeter, and the Remuneration Committee – play a predominant role in the overall process of implementing this policy

The People Committee, in its limited perimeter, made up of the main Senior Executives of HSBC Continental Europe (the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Risk Officer, the Head of Human Resources), reviews the main aspects of the compensation policy proposed by the HR function for France and approves it. It ensures that this policy fits in with the general principles of the compensation policy set by the HSBC Group for all of its subsidiaries, and in the light of the specific directives set by the global business lines. Lastly, it gives an opinion on the policy's compliance with local professional standards and the recommendations of banking supervisory bodies in France such as the *Autorité de Contrôle Prudentiel et de Résolution* and the European Central Bank since 4 November 2014, the *Autorité des Marchés Financiers* and the *Fédération Bancaire Française.*

In addition, as regards to variable compensation, it checks that all of the measures in place within the bank's various business lines adhere to the general principles defined in compensation policies edited by France, Group and global business lines, and meet the requirements of supervisory committees. It reviews the variable compensation budgets allocated to local staff by the global business lines on the basis both of the overall performance of each business line and of the relative performance of local teams and by taking into account risk and compliance aspects. It approves the structure of these compensation pools, i.e. the breakdown between cash and shares, between immediate remuneration and deferred remuneration in accordance with the HSBC Group's rules and local professional standards.

Lastly, on an individual basis, after approval of the list, it reviews and validates the consistency of compensation paid to professionals whose activities have a significant impact on the company's risk profile (excluding People Committee's members), before submission to HSBC Group's decision-making bodies. It reviews the 20 highest compensation packages (excluding People Committee's members), in collaboration with the HSBC Group's decision-making bodies and global business lines. It reviews any individual breaches with respect to internal rules in term of credit risk, compliance and reputation, and for specific employees, to mandates provided for Volker and SRAB rules.

On the basis of the compensation policy papers prepared by the People Committee in its limited perimeter, the Remuneration Committee, chaired by an independent Director, gives his view on the bank's policies and practices concerning compensation, ensuring their consistency with the HSBC Group policy and their compliance with applicable local standards, as well as that risk management and compliance issues are taken into account.

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

Finally, it reviews the remuneration of any Executive Directors, of the Chief Risk Officer and the Chief Compliance Officer and submit its proposals to the Board.

Main characteristics of the remuneration policy

At HSBC Group level, the remuneration policy defined takes into account both the sustainable financial performance and the commercial competitiveness of the company as a whole and each of its businesses and the overall performance regarding risk management, and finally the company's capacity to fund this policy on its own profit.

The main performance indicator used by the HSBC Group, to set variable pay pools, is the profit before tax before variable compensation and excluding the change in value of own debt due to credit spread and capital gains or losses on businesses' and subsidiaries' disposals. In addition, it includes model and credit risk provisions.

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

Once approved, these variable pay pools are allocated, for each business/segment/product/function by regions and countries depending on their respective performance. Local performances are measured through: financial metrics such as evolution of Profit Before Tax, growth in revenue on strategic objectives and focusing on synergies with other regions, costs control, comparison of revenue and cost trends ('JAWS'), evolution in profitability through, in particular, return on risk weighted assets; and through non-financial metrics such as management of risks focused in particular on improvement of financial crime risk culture, implementation of regulator or Audit recommendations, operational risk management, appropriate application of 'Conduct' principles in order to act in the interest of customers, being compliant with financial markets integrity and avoiding any conflict of interests. Lastly the performance measure is based on more generic indicators such as customer experience improvement, implementation of reorganisation and transformation projects, growth in women representation among high roles in the organisation, carbon reduction or development of sustainable finance. These indicators are included in performance scorecard and are analysed by comparison with objectives set at the start of the year.

These pools are then granted in a differentiating manner according to the individual performance of each employee. The individual performance of an employee is appraised by the manager once a year at year-end. The appraisal is based on four points rating scale:

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

The four points performance rating scale aims to encourage differentiation in performance and variable compensation levels, accordingly.

The performance appraisal is based on achieving targets set for the employee by the manager at the start of the year. These targets include both qualitative criteria (observance of compliance and internal control rules, quality of sales or quality of service, risk management – especially in terms of operational risks and follow-up of audit points – customer recommendations, cross-businesses synergies, winning customers, etc.) and collective and/or individual financial criteria (income growth, cost control, growth of the profit before tax, etc.).

The indicators, which underpin these objectives, are a function of the position held and the level of responsibility, and are appraised by comparison to the previous year and against the current year budget.

All targets are formally documented at the beginning of the year, in annual employee target sheets (performance scorecards).

Regarding fixed remuneration, annual fixed pay pool are determined locally. Fixed pay increases reward several factors such as capabilities expertise, technical skills enhancement, extension of responsibilities, increase in managed revenues or size of the team, higher influence on the organisation, a lack of internal or external competitiveness.

Remuneration policy applicable to Risk takers

CRD V

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

In compliance with the rules under CRD III repealed by CRD IV and CRD V directives, some employee categories are subject to specific rules regarding variable compensation award. These employees, considered to have an impact on the entity's risk profile ('Material Risk Takers'), were identified on the basis of qualitative and quantitative criteria defined by the European Banking Authority. Pursuant to these criteria, the HSBC Group, which is itself submitted to this regulation, identified at HSBC Continental Europe level a list of 62 employees coming under this Material Risk Takers category.

As these new criteria have to be applied both at a consolidated and an individual basis, an additional list of 64 employees who can have a significant impact on the company's risk profile at a local level was added to this list of Material Risk Takers identified at HSBC Group level.

This whole list of 126 employees includes mainly the executive directors, the heads of business lines, the heads of risk functions and the market operators who have an impact on the company's risk profile.

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

It should be noted that if the variable remuneration amount is lower than 1/3 per cent of total remuneration and lower than EUR 50,000, the variable remuneration is granted in cash immediately paid and deferred shares according to HSBC Group standard deferred rules.

For this population as a whole, 46 per cent of variable remuneration is deferred, and variable remuneration represents 38 per cent of total remuneration. For French employees, the deferred share-based portion is not vested by the employee until after either a period of two years for 50 per cent, three years for 25 per cent and after four years for the remaining 25 per cent or a period of two years for 40 per cent, three years for 20 per cent, four years for 20 per cent and five years for the remaining 20 per cent. This is furthermore subject to a six-month or one-year retention period starting from vesting, and there is a prohibition on hedging it.

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

AIFM/UCITS

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

Eligible employees

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

The list of these risk takers mainly comprises Executive Directors, Heads of Risk functions, Finance function and Legal function, Heads of Sales, Heads of Funds Management and Head of Branches.

In 2021, a total of 42 risk takers have been identified risk takers AIFM/UCITS within HSBC Global Asset Management (France) and 7 risk takers within HSBC REIM;

Impact on the variable remuneration

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

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

Solvency II

Finally, with effect from 1 January 2016, HSBC Assurances Vie employees identified as risk takers under Solvency II Directive are bound by the remuneration requirements set out in this directive.

Eligible employees

In accordance with this Directive, categories of employees of HSBC Assurances Vie (France) identified as risk takers are subject to specific rules in term of variable remuneration. In 2021, the employees concerned are:

- Board of Directors members*;
- Executive Directors: Chief Executive Officer and deputy Chief Executive Officer;
- Key functions: Heads of Risk functions, Head of Compliance, Head of Actuarial, Head of Audit;
- Head of Finance: Board committee member of HSBC Assurances Vie (France) and under his strategic function in the company.

* *except two members who have the status of external 'non executive' Director.*

In 2021, 19 employees have been identified as risk takers under Solvency II.

Impact on the variable remuneration

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

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

However, risk takers whose variable remuneration is lower than GBP 500,000 (or an equivalent amount in local currency) and whose variable remuneration is under 1/3 per cent of their total compensation, are considered as '*de minimis*'. On this basis, they are subject to Group deferral standard rules.

It should be noted that beyond this Material Risk Takers population, the great majority of the company's senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2021, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, with 3 years vesting rules and no retention period.

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

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

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

Regarding finally severance payments, they follow legal or collective bargaining agreements' rules.

In accordance with CRD V Directive

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

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

Remunerations awarded to overall staff

	Full time Equivalent 2021[1]	Total remuneration 2021 €
Executive members	3	5,047,520
Wealth and Personal Banking	3,601	191,311,011
Commercial Banking	1,068	75,742,812
Markets and Securities Services	447	60,976,084
Global Banking	271	56,329,448
Global Banking and Markets – Other	3	331,881
Corporate Centre	2,058	152,526,731
Total	**7,451**	**542,265,486**

1 *Staff as of 31 December 2021 excluding trainees and pre-retirements (CFCS).*

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

Total remuneration: distribution between fixed pay and variable pay

	Number of people concerned	Total remuneration 2021 €	Total fixed pay €	Total variable pay €
Executive members	3	5,047,520	2,634,206	2,413,314
Wealth and Personal Banking	7	5,500,998	2,865,826	2,635,172
Commercial Banking	14	5,457,552	3,431,906	2,025,646
Markets and Securities Services	16	11,130,699	6,991,570	4,139,129
Global Banking	20	15,996,568	7,705,973	8,290,595
Global Banking and Markets – Other	10	4,946,280	4,946,280	
Corporate Centre	56	15,262,054	10,634,714	4,627,340
Total	**126**	**63,341,670**	**39,210,475**	**24,131,195**

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

	Payments in cash €	Payments in shares €	Total variable pay €
Executive members	1,206,657	1,206,657	2,413,314
Wealth and Personal Banking	1,333,522	1,301,650	2,635,172
Commercial Banking	1,012,823	1,012,823	2,025,646
Markets and Securities Services	2,069,565	2,069,565	4,139,129
Global Banking	4,145,297	4,145,297	8,290,595
Global Banking and Markets – Other			
Corporate Centre	2,599,455	2,027,885	4,627,340
Total	**12,367,318**	**11,763,877**	**24,131,195**

Total variable pay: distribution between non deferred and deferred amount

	Non-deferred amount €	Deferred amount €	Total variable pay €
Executive members	1,069,297	1,344,017	2,413,314
Wealth and Personal Banking	1,392,554	1,242,618	2,635,172
Commercial Banking	1,215,387	810,258	2,025,646
Markets and Securities Services	2,183,987	1,955,142	4,139,129
Global Banking	4,084,146	4,206,449	8,290,595
Global Banking and Markets – Other			
Corporate Centre	3,005,032	1,622,308	4,627,340
Total	**12,950,402**	**11,180,793**	**24,131,195**

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

	Payments in cash €	Payments in shares €	Total deferred variable pay €
Executive members	672,009	672,009	1,344,017
Wealth and Personal Banking	355,428	887,190	1,242,618
Commercial Banking	405,129	405,129	810,258
Markets and Securities Services	977,571	977,571	1,955,142
Global Banking	2,103,224	2,103,224	4,206,449
Global Banking and Markets – Other			
Corporate Centre	794,379	827,929	1,622,308
Total	**5,307,741**	**5,873,052**	**11,180,793**

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

	Amount of unvested deferred variable pay in respect of previous financial years €
Executive members	**3,007,075**
Wealth and Personal Banking	**3,631,856**
Commercial Banking	**1,560,567**
Markets and Securities Services	**7,261,093**
Global Banking	**9,925,758**
Global Banking and Markets – Other	**3,708,916**
Corporate Centre	**2,788,354**
Total	**31,883,619**

This table shows outstanding deferred variable pay corresponding to total unvested deferred remuneration before the 31 December 2021, i.e. variable pay that has been awarded but not yet paid (cash) or delivered (shares) and which is still subject to a future 'malus' mechanism or early departure.

Shares and equivalent instruments are valued on the share value as at 31 December 2021. Outstanding vested variable pay in respect of prior year can be impacted by departures from the company.

Amounts paid in respect of hiring (guaranteed variable)

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

Amount of severance payments[1]

	Number of people concerned	Amount of severance payments €
Executive members	–	–
Wealth and Personal Banking	–	–
Commercial Banking	**2**	**1,792,754**
Markets and Securities Services	**8**	**16,310,463**
Global Banking	**4**	**6,975,930**
Global Banking and Markets – Other	**1**	**1,567,000**
Corporate Centre	**2**	**1,634,955**
Total	**17**	**28,281,102**

(1) Severances paid in respect of the social plans implemented in 2021.

Contributions to defined benefit plan

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

Information on highest remunerations

Total remuneration

	Number of Material Risk Takers
Between 1 million and 1.5 million excluded	5
Between 1.5 million and 2 million excluded	4
Between 2 million and 2.5 million excluded	1
Total	**10**

In accordance with AIFM Directive

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

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

HSBC Global Asset Management and HSBC REIM (France)

	Total fixed pay €	Total variable pay €	Total Remuneration €
Total of Employees (number: 355)	27,857,232	10,420,703	38,277,935
Including employees who have a significant impact on the risk profile AIFMD (number: 49)[1]	7,696,299	5,295,575	12,991,874
Including Senior Managers (number: 22)	3,447,795	1,853,532	5,301,327

1 *Including 3 Executive managers who are already in the CRD V material risk takers.*

In accordance with Solvency II Directive

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

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

	Total fixed pay €	Total variable pay €	Total Remuneration €
Employees identifies as Solvency II staff (number: 19)[1]	5,507,319	3,655,302	9,162,622

1 *Including 11 Executive managers who are already in the CRD V material risk takers.*

PricewaterhouseCoopers Audit
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92208 Neuilly-sur-Seine Cedex, France

BDO Paris
43-47 avenue de la Grande Armée
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Statutory Auditors' special report on related-party agreements

This is a free translation into English of the Statutory Auditors' special report on related-party agreements issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

(Annual General Meeting for the approval of the financial statements for the year ended 31 December 2021)

HSBC Continental Europe

38, avenue Kléber

75116 Paris

To the Shareholders,

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

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

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

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

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

Agreements authorised and entered into during the year

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

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

Nature and purpose:

At its meeting on 29 September 2021, the Board of Directors authorised an agreement (Side Letter), relating to the pre-payment by the Company to the five Group service companies of four months' fees for services provided, in order to meet the contingency fund requirements regarding Operational Continuity in Resolution ("OCiR"). The agreement was entered into on 29 September 2021.

Terms and conditions:

Prepayments are calculated on the basis of four months of future costs plus a margin.

The initial prepaid amounts are then reassessed annually, or earlier, by mutual agreement between the parties.

At 31 December 2021, the prepayments recorded on the Company's statement of financial position amounted to EUR 84.3 million.

Reasons why the agreement is beneficial for the Company:

This agreement was entered into to enable the Company to comply with contingency fund requirements, the purpose of which is to ensure that the Group's service companies (ServCos) has sufficient financial resources to guarantee the provision of services that the HSBC Group relies on throughout a stress or resolution event.

With Jean Beunardeau, Chairman of the Board of Directors

Nature and purpose:

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

Terms and conditions:

The agreement was entered into following the reinstatement of Jean Beunardeau's employment contract from 15 July 2021, after having been suspended since his appointment as Deputy Chief Executive Officer on 1 February 2010 (agreement entered into in 2021).

This agreement gave rise to a payment of EUR 509,000 in 2021.

Reasons why the agreement is beneficial for the Company:

Following the resignation of Mr Assaf as Chairman of the Board of HSBC Continental Europe, Jean Beunardeau was appointed to replace him in this role.

Agreements already approved by the Annual General Meeting

Agreements approved in prior years

a) that were implemented during the year

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

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

Three agreements entered into in 2001 between HSBC Continental Europe and HSBC Bank plc Paris Branch also remained in effect in 2021:

- A shared services agreement to provide its members, at cost, with various services related to the two companies' business activities.
- An agreement pursuant to which HSBC Continental Europe provides HSBC Bank plc Paris Branch services related to various business activities.

Under these two agreements, the income recorded in 2021 amounted to EUR 734 thousand.

- Tax integration agreement between HSBC Bank plc Paris Branch and HSBC Continental Europe. With respect to this agreement, tax income of EUR 47.1 million was recorded in 2021.

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

The agreement renewed in 2015 provides for the free use of the HSBC brand by HSBC Continental Europe and its subsidiaries. It had no impact on the 2021 financial statements.

b) that were not implemented during the year

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

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

The indemnification agreement entered into in 2019 between HSBC Continental Europe and HSBC Bank plc and HSBC UK Bank plc in order to indemnify HSBC Bank plc and HSBC UK Bank plc for any costs that they may still be required to pay pursuant to their obligations to their beneficiaries, who have become customers of HSBC Continental Europe as a result of HSBC Bank plc and HSBC UK Bank plc no longer being authorised to supply certain instruments and international trade services to companies situated in the European Economic Area (EEA) following the withdrawal of the United Kingdom from the European Union.

Neuilly-sur-Seine and Paris, 23 February 2022

The Statutory Auditors

PricewaterhouseCoopers Audit
Agnès Hussherr
Partner

BDO Paris
Arnaud Naudan
Partner

Sustainability

Statement on Non- Financial Reporting

HSBC Continental Europe's business model

Activities and strategy

The business model for HSBC Continental Europe, showing its scope, main resources, main business areas and activities, its strategy and its prospects is set out in the presentation of activity and strategy on page 4.

Sustainability Governance

Through its business activities, HSBC aims to support the long-term success of its clients and employees and of the communities in which it operates. HSBC Continental Europe is fully committed to the course of action adopted by the Group and presented in its strategy report (https://www.hsbc.com/investors/results-and-announcements).

In 2008, in order to deploy and effectively implement this strategy in France, HSBC Continental Europe created a Sustainability Department, reporting to the Chief Executive Officer and to Global Corporate Sustainability. The department has a seat on the bank's Executive Committee. Consisting of a team of four, it co-ordinates the definition and implementation of action plans developed in collaboration with representatives of each of the relevant business lines.

These sustainability representatives meet every two months in a Climate Business Council, whose main purpose is to report on progress or constraints in the deployment of this strategy. Additional governance committees have been set up in certain business lines and functions. These committees mirror the global governance process.

This chapter supplements the non-financial information presented in the Environmental, Social and Governance ('ESG') review which forms part of the Group Annual report and Accounts to be published by the Group on 22 February 2022 and made available on the Group website (https://www.hsbc.com/who-we-are/esg-and-responsible-business).

Identifying material ESG risks for HSBC Continental Europe

A responsible business culture

HSBC has set itself the mission of bringing together people and opportunities. The goal creates for us a duty of care to our customers, to society in the broad sense of the term and to the integrity of the financial system.

Non Financial risks

HSBC uses a variety of tools to identify and manage its non-financial risks, including its appetite for risk, risk mapping, a list of top and emerging risks and stress testing. It also relies on surveys involving employees and customers, dialogue with customers and investors, and the annual ESG survey carried out among investors.

In 2021, HSBC Continental Europe reviewed the environmental, social and governance risk map that it had prepared in 2020. This analysis of the most material ESG risks over the short, medium and long term identifies eleven ESG themes that present material risks for HSBC Continental Europe, along with three themes required by the 19 July 2017 order relating to the publication of non-financial information:

- Four risks relating to banking activity:
  - Risk relating to the non-alignment of financed emissions with a net zero pathway (theme 1)
  - Risk relating to the non-alignment of the bank's operational carbon footprint with a net zero pathway (theme 2)
  - Risk of customer disappointment (theme 3)
  - Business continuity risk related to a rapid and massive spread of infectious disease (theme 4)
- Three themes involving human capital:
  - Risk of inability to ensure the employability of our employees given the transformation of the banking sector (theme 5)
  - Risk of failure to recruit and retain talent (theme 6)
  - Risk related to lack of diversity among teams and psychosocial risks (theme 7)
- Seven themes involving governance risks:
  - Risks of non-alignment with our stakeholders' expectations (theme 8)
  - Risk related to unfair business practices and failure to protect the interests of customers (theme 9)
  - Risk of money laundering and financial crime (theme 10)
  - Risk of corruption* (theme 11)
  - Risk relating to tax evasion* (theme 12)
  - Risk in the areas of cybersecurity and IT attacks (theme 13)
  - Risk in terms of non-compliance with Human Rights* (theme 14).

Despite their environmental and societal importance, the fight against food waste and food insecurity*, the promotion of responsible, fair and sustainable food*, and the respect for animal welfare* are not material issues in the bank's activities.

In October 2021, rating agency Sustainalytics assessed HSBC Continental Europe in terms of its management of ESG risks, putting it in the low-risk category.

* required by the directive on the Non-Financial Reporting

Managing material ESG risks

Developing a sustainable economic system is important for each of us. All members of society have a shared duty to come up with solutions to climate change, technological transformation and globalisation in order to ensure future prosperity.

HSBC is aware that governments, companies, the financial system and civil society are all stakeholders in fighting climate change and addressing the challenges of sustainable development.

It is with this in mind that HSBC manages the risk that the financial services which it provides to customers may not meet their expectations or may have unacceptable impacts on people or the environment. Sustainability risks can also lead to commercial risk for customers, credit risk and reputational risk for the bank.

As a result, we have established policies to address these risks which are provided on the following pages. We also identify key performance indicators against which we can monitor our ability to manage each risk. When developing our policies, our aim is to set targets for key metrics in order to monitor progress in meeting our improvement objectives. With HSBC Continental Europe transforming its business model towards a wholesale bank and the integration of 10 branches.

We are still in the process of identifying and refining our key performance indicators and have not yet set targets against every metric under the new business model.

For those metrics where we have identified targets they are subject to review and change and are provided in the following table:

Our key performance indicators and targets

		Target/ambition	Performance in 2021
Banking activity			
	Support our customers in the transition to net zero and a sustainable future	HSBC Group ambition to provide and facilitate $750bn to $1tn of sustainable finance and investment by the end of 2030	Cumulative contribution to Group ambition since 2020 of $42.6 bn
	Exposure to thermal coal	Phase-out of thermal coal financing in EU/OECD by 2030; and worldwide by 2040[1]	Exposure to thermal coal as a proportion of lending to businesses of 0.21%
	Net Zero ambition in our operations	Ambition to be net zero in our own operations and supply chain by 2030 or sooner[2]	Greenhouse gas emissions (tons equiv CO_2) per Full Time Employee of 0.48
	Business continuity	Target of 95% of Business Continuity Lifecycle controls assessed as effective and compliant	98% of Business Continuity Lifecycle controls assessed as effective and compliant
Human capital			
	Employee development	For development programmes that are open to all on a voluntary basis, target to achieve 1 out of 3 employees taking one programme module each year.	Take-up rate for employee development programmes open to all on a voluntary basis of 34%.
	Employee talent retention	Target to achieve an employee attrition rate of 7% or lower	Employee attrition rate of 7%
	Employee gender diversity	Target to reach 35% women in senior leadership roles by the end of 2025	Women in senior leadership roles of 30%[3]
Governance			
	Alignment with our stakeholders' expectations	Target to organise an annual meeting of the external stakeholder committee	No external stakeholder committee meetings held this year
	Conduct, financial crime, corruption and tax evasion	Group target to achieve at least 98% of employees complete conduct and financial crime training each year	98% of staff completed financial crime training[4]
	Cybersecurity and IT attacks	Target of no significant security incidents over the last 12 months	One moderate cybersecurity incident[5]
	Supplier Code of Ethical Conduct	Target of close to 100% of suppliers to have signed code of conduct	72% of suppliers signed code of conduct

1 *Thermal coal financing to clients with thermal coal assets in EU/OECD markets will be phased out by 2030, and thermal coal financing will be completely phased out worldwide by 2040.*
2 *This absolute greenhouse gas emission figure covers scope 1, scope 2 and scope 3 (energy and business travel) emissions.*
3 *Senior leadership is classified as those at band 3 and above in our global career band structure.*
4 *The completion rate shown relates to the 2021 financial crime training module. The 2021 regulatory conduct training has been launched in January 2022 and will run through the first quarter of 2022.*
5 *HSBC Continental Europe had a moderate cyber-security incident in March 2021 related to a third party ransomware attack.*

Financing the low carbon economy to manage the risk relating to the non-alignment of financed emissions with a net zero pathway (theme 1)

More than ever, we need to support the transition of our customers to a low-carbon economy, including the innovation and low-carbon solutions required to ensure economic resilience. For HSBC, these are the key elements of sustainable growth that it can influence.

The Group's network covers the world's largest and fastest-growing trade corridors and economic zones. This enables the Group to play a strategic role in promoting sustainable growth at the heart of the global economy.

HSBC's commitment to sustainable finance

HSBC supports the Paris Agreement and, in October 2020, announced new commitments to tackling the environmental and climate crisis:

- Reducing its financed emissions – the emissions produced by its financing portfolio – with a view to be aligned with a carbon neutral trajectory by 2050;
- Being carbon neutral for operations, including the supply chain, by 2030;
- Supporting customers in the transition to a sustainable future by providing between USD 750 billion and USD 1,000 billion in financing and investment over the next 10 years;
- Becoming one of the major managers of natural capital globally;
- Contributing to the transformation of sustainable infrastructure into a global asset class and generating a bankable project pipeline.

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

Managing the environmental risks related to banking activity

The HSBC Group disclose under the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') since they were published in 2017, and reports its progress in its Annual Report and Accounts available on the Group website. Prior to this, in 2003 it became a signatory to the Equator Principles, which form a voluntary framework to be used by financial institutions in assessing and managing the social and environmental impact of infrastructure projects. This is revised regularly; the latest updates were published in October 2020. HSBC has voluntarily extended the Equator Principles to company loans, export financing and other project financing tools.

In addition, for over 16 years, HSBC has developed a risk management framework based on an approach to working with business customers that uses formal processes and trained and responsible employees to understand and manage environmental and social issues in relation to sensitive sectors and themes.

As a result, an assessment of the environmental and social impact of financing granted to the bank's customers has been embedded in the Group's risk management procedures. To ensure global consistency in analysis and approval procedures, a system of environmental and social risk assessment has been established to record and monitor client companies operating in sensitive sectors throughout the world, and to obtain more precise information on the Group's exposure in the management of sustainability risk.

The potential environmental and social impacts caused by customers conducting business in any of the sectors concerned by HSBC's policies are assessed by account managers from Global Banking and Markets and Commercial Banking and by HSBC's designated Sustainability Risk Managers from the Credit Department, whether for risky project finance or lending transactions. Since 2020, regional Reputational Risk Managers have also had responsibility for supervising management of sustainability risks.

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

To improve its risk management, the HSBC Group regularly reviews its internal sector policies. In December 2021, HSBC strengthened its Energy sector policy by committing to phasing-out thermal coal financing in EU/OECD by 2030 and worldwide by 2040. HSBC expects all existing thermal coal related clients to publish transition plans and will not provide new finance where plans are not compatible with HSBC's net zero by 2050 target. HSBC will decline to provide new financing, refinancing or advisory services to any thermal coal related client that fails to show a credible transition plan within an acceptable time-frame.

The policy includes short term targets to help drive measureable results in advance of the phase-out dates. A science-based financed emissions target will be published in 2022 to reduce emissions from coal-fired power in line with a 1.5°C pathway. HSBC also intends to reduce its exposure to thermal coal financing by at least 25 per cent by 2025 and aims to reduce such exposure by 50 per cent by 2030, using its 2020 Task Force on Climate-Related Financial Disclosures (TCFD) reporting as its baseline. Thermal coal financing remaining after 2030 will only relate to clients with thermal coal assets in non EU/OECD markets, and will be completely phased out by 2040. HSBC will report annually on progress in reducing thermal coal financing in its Annual Report and Accounts.

The HSBC Group's business dealings in these sensitive sectors always involve dialogue with the client, to help it comply with international standards as well as our policies. However, as a last resort, the Group reserves the right to cease all relations with a client that does not meet its requirements or which has not made significant progress.

These proactive policies, which form the basis of a restrictive and transparent approach to financing carbon-intensive or potentially environmentally damaging sectors, have enabled the HSBC Group and HSBC Continental Europe more specifically to avoid financing new thermal coal mines and coal-fired thermal power stations since the energy sector policy was revised in mid-2018 and in April 2020. At year end 2021, coal's share of the energy mix financed by HSBC Continental Europe represented 0.21 per cent of its lending to business; that proportion resulted from the energy mix of certain customers, not from our direct financing of coal-related activities, in line with our internal policy. Exposure increase of 0.05 per cent versus last year (0.16 per cent) is mainly related to short term lending to few utility companies at year end, and some of these exposures have already been repaid.

HSBC Group has introduced a new coal policy at the end of 2021; the relevant names will be closely monitored, and appropriate relationship strategies elaborated, through the lens of this policy.

For more details, visit the Group website: https://www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk

Measuring our financed emissions

The Group announced its ambition to become a net zero bank in October 2020, including an aim to align its financed emissions to net zero by 2050 or sooner. In May 2021, the shareholders approved a climate change resolution at the Group's AGM that commits the Group to set, disclose and implement a strategy with short- and medium-term targets to align its provision of finance with the goals and timelines of the Paris Agreement. The Group's analysis covers financing from both Global Banking and Markets, and Commercial Banking.

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

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

Our initial disclosures

With respect to HSBC Continental Europe, financed emissions calculations are based on loans and advances to clients in the oil and gas and power and utilities sectors recorded in HSBC Continental Europe. These are emissions-intensive sectors that have important roles in decarbonising the global economy. On the following pages, we report on the results of our analysis for these two sectors.

As carbon emissions data is available only at a global counterparty level, the emissions calculated for HSBC Continental Europe have been approximated using the loan amounts for relevant counterparties recorded in HSBC Continental Europe. For each counterparty, the financed emission figure has been approximated using the loan balance recorded in HSBC Continental Europe specifically, as a proportion of the total loan balance at the Group level.

Our analysis relies on data disclosed by our customers and other sources that may result in a time lag of one year or longer. The Group chose to use 2019 data as the basis for initial disclosures, having taken into consideration potential distortions to economic activity caused by the Covid-19 pandemic during 2020.

What is included in our analysis

The HSBC Continental Europe financed emissions disclosure places reliance on the methodology developed by the Group. Key elements of this methodology are described as follows:

In 2021, the Group assessed its financed emissions related to the oil and gas, and power and utilities sectors using 2019 data. The Group believe these sectors are most material in terms of emissions, and are where it believes engagement and climate action have the greatest potential to effect change.

For the oil and gas sector, the Group focused on upstream companies, and integrated or diversified energy companies. The assessment of this portfolio included scope 1, 2 and 3 greenhouse gas emissions of financed counterparties. For the power and utilities sector, the analysis focused on upstream power generation companies, including scope 1 and 2 greenhouse gas emissions of financed counterparties.

Regarding the different types of greenhouse gas measured, the Group includes CO_2 and methane (measured in CO_2e) for the oil and gas sectors, and CO_2 only for the power and utilities sector due to data availability and emissions materiality.

To calculate on-balance sheet financed emissions, the Group used loan balances at 31 December 2019 related to wholesale credit and lending, which included business loans, trade and receivables finance, and project finance as the value of finance provided to customers in the analysis. The Group only included facilities with an original duration of 12 months or longer having considered industry guidance.

Notes on data and methodology

The Partnership for Carbon Accounting Financials ('PCAF'), provides guidance on how to assess and disclose greenhouse gas emissions associated with loans and investments. It also provides a common approach for addressing variability in the data available to assess emissions.

The majority of our clients do not yet report the full scope of greenhouse gas emissions included in the analysis, in particular scope 3 emissions. In the absence of client-reported emissions, the Group estimated emissions using proxies based on counterparty production and revenue figures. Although the Group sought to minimise the use of non-company specific data, industry averages were applied in the analysis where company-specific data was unavailable.

The methodology and data used to assess financed emissions is new and evolving, and we expect industry guidance, market practice, and regulations to continue to change. We plan to refine our analysis using the data sources and methodologies available for the sectors we analyse, including, among others, the Science Based Targets initiative ('SBTi') and the Paris Agreement Capital Transition Assessment ('PACTA') methodology.

Our initial set of baselines may require updating as data availability changes over time and methodology and climate science evolves. We plan to report financed emissions annually, and seek to be transparent in our disclosures about the methodologies applied. However, financed emissions figures may not be reconcilable or comparable year-on-year.

For further details of the Group's approach and methodology, see the HSBC Net Zero Aligned Finance Approach Update and Financed Emissions Methodology at www.hsbc.com/esg.

Our analysis of oil and gas, and power and utilities portfolios

The table below summarises the results of our assessment of financed emissions using 2019 Group data, approximated using loans and advances recorded in HSBC Continental Europe as a proportion of the total loans and advances recorded at the Group level. It indicates the emissions associated with our financing activities in terms of absolute emissions relevant to each sector.

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

For these two sectors, information on emission reduction targets set by the Group can be found in the Environmental, Social and Governance review which forms part of the Group Annual report and Accounts available on the Group website at https://www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Financed emissions using 2019 data

	HSBC Continental Europe loans and advances to customers €m	HSBC Continental Europe absolute emissions (Mt CO2e)[1]
On-balance sheet financed emissions — wholesale credit lending and project finance (2019)		
Oil and gas	190	0.54
Power and utilities	846	1.00

1 *Absolute emissions are measured by million tonnes of carbon dioxide equivalent ('Mt CO_2e').*

We started by identifying the counterparties in-scope of the Group disclosure which had loans and advances recorded in HSBC Continental Europe. For each of these counterparties we approximated absolute financed emissions using the loans and advances recorded in HSBC Continental Europe as a proportion of the Group total multiplied by the financed emissions for the Group.

HSBC Continental Europe's contribution to HSBC's sustainable finance 2030 ambition

In 2020, HSBC undertook to provide between $750bn and $1tn in sustainable financing and investment by 2030.

HSBC Continental Europe's cumulative contribution to the Group's target since 1 January 2020 amounted to USD 42.6bn at 31 December 2021, representing 34 per cent of total Group progress to date, a large part of which related to supporting our clients with their green and social bond issuances.

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

Contribution from Global Banking and Markets to sustainable financing

Green, Sustainability-linked and Social bonds

HSBC Continental Europe is heavily involved in developing the green, socially responsible and sustainability bond market. Across all sectors, HSBC Continental Europe managed or co-managed a total of 90 green, socially responsible and sustainability bond issues in 2021, for a total volume of EUR 39 billion.

In 2021, in the Supranational, Sovereign, Agency and local authorities segment, HSBC Continental Europe lead-managed more than 39 issues and a few landmark transactions are listed below:

- for the European Commission and the European Union (UE)'s Support to mitigate Unemployment Risk in an Emergency (SURE) Programme, HSBC Continental Europe co-managed an issue of EUR 9 billion 15-year Social Bonds. The SURE programme is an EU programme of temporary support to mitigate unemployment risks resulting from the negative economic and social effects of the Covid-19 pandemic;
- for the Republic of France, HSBC Continental Europe co-managed on a new EUR 6 billion issue for 23-year Obligations Assimilables du Trésor ('OAT') Green Bond benchmark;
- for the Federal Republic of Germany, HSBC Continental Europe co-managed a new EUR 6 billion issue of 30-year Green Bundesanleihe ('federal bond') benchmark;
- for Bpifrance, HSBC Continental Europe co-managed on a first issue of EUR 1.25 billion 7-year Green Bonds;
- for KfW, HSBC Continental Europe co-managed an issue of CAD 1 billion 5-year Green Bonds;
- for *Caisse d'Amortissement de la Dette Sociale ('CADES')*, HSBC Continental Europe lead-managed four Social Bond issues: USD 5 billion for 10-year, USD 4 billion for 3-year, EUR 4 billion for 5.5-year and USD 3 billion for 5-year;
- for *Société du Grand Paris (SGP),* HSBC co-managed an issue of EUR 2 billion 25-year Green Bonds. HSBC Continental Europe also lead-managed a new benchmark 30-year issue for SGP for EUR 1.25 billion;
- for *Ile-de-France Mobilités*, HSBC Continental Europe co-managed a new green double-tranche 10-year and 20-year issue for a total of EUR 1 billion;
- for the *Communidad de Madrid,* HSBC Continental Europe co-managed a EUR 1 billion issue of 10-year Sustainability Bond;
- for the Basque Country, HSBC Continental Europe co-managed a EUR 1 billion issue of 11-year Sustainability Bond;
- for *Junta de Andalusia*, HSBC Continental Europe co-managed a first issue of EUR 1 billion 10-year Sustainability Bond. HSBC Continental Europeal so lead-managed a EUR 500 million issue of 12-year Sustainability Bond;
- for *Ile-de-France* region, HSBC Continental Europe co-managed a EUR 500 million 7-year Sustainability Bond, under the Region's updated framework aligned to the EU taxonomy.

For Corporate issuers, HSBC Continental Europe managed 39 issues and a few landmark transactions are listed below:

- for the Italian utility Enel, HSBC Continental Europe co-managed a largely oversubscribed issue of 5,7,10 and 20-year multi-tranche Sustainability Linked Bond for USD 4 billion;
- for the Spanish Oil & Gas Repsol, HSBC Continental Europe co-managed a new EUR 1.25 billion issue of 8 and 12-year Sustainability Linked Bond;
- for the French utility Engie, HSBC Continental Europe lead-managed a EUR 750 million issue of 15-year Green Bond;
- for the French hospitality group Accor, HSBC Continental Europe managed a new 7-year Sustainability Linked Bond for EUR 700 million;
- for the Portuguese utility *Energias de Portugal,* HSBC Continental Europe managed a new double-tranche Green Bond for EUR 500 million and EUR 750 million.

For financial institutions and insurance companies, HSBC Continental Europe lead-managed 18 issues and a few landmark transactions are listed below:

- for BBVA, HSBC Continental Europe lead-managed a 2-year Preferred Senior Social Bond for EUR 1 billion;
- for LBBW, HSBC Continental Europe lead-managed a 10-year Non Preferred Senior Social Bond for EUR 750 million;
- for Bank of Ireland (Ireland), HSBC Continental Europe lead-managed a 6-year HoldCo Senior Green Bond for EUR 750 million.

Additional information on green bonds is available at https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds

ESG research for asset management customers

The Equity Research and Sales team places a considerable emphasis on Socially Responsible Investing ('SRI'). In 2021, they invited investors to several ESG virtual conferences ('Future of transport/Mobility Week', 'Automation Week', and 'Building Materials & ESG conference'). These presentations were given by different speakers (Chief Financial Officers, Investor Relations and Sustainability directors from listed companies). Calls were also organised in which financial analysts presented ESG themes, including their views on COP26.

Commercial Banking contribution to sustainable financing

The commercial banking team has implemented several strategic initiatives to support relationship managers, risk stewards and clients themselves in their transition towards a trajectory that respects the Paris Climate Agreement.

The Sustainable Finance Origination and Structuring team

The Sustainable Finance Origination and Structuring team's purpose is to cover a wide-range of clients (Large Corporates to Mid-Market clients) from a cross-asset perspective. The team works closely alongside the Bank's coverage teams and business lines in order to serve clients in a comprehensive manner: Equity Capital Markets ('ECM'), Debt Capital Markets ('DCM'), Commercial Real Estate, LBO, and Syndication Loans. Each business line received specific training on ESG in order to share ESG expertise and slowly shape HSBC as a bank with full integration of ESG considerations.

The team serves clients' sustainable finance needs and encourages the enhancement of their Corporate Social Responsibility ('CSR') strategy and actions through a deep dialogue covering ESG achievements and ambitions. This dialogue allows the team to identify the right external expertise among the Bank's multi-partnerships, from enhancing CSR strategies to structuring sustainable finance transactions.

Since 2020, the team has already held 220 client meetings and follow ups with the Relationship Manager and CMB/GB business lines. It has developed a full range of ESG presentations for use by Relationship Managers' and other business lines. Notably, a sustainable finance pitch, existing in both French and English, is regularly updated, mainly for use by Relationship Managers within International Subsidiary Banking ('ISB'). Sustainable finance products proposed to customers include: EIB-backed Green envelope, Sustainability-Linked Loans, Green Loans, Sustainability-Linked Bonds, and Green, Social and Sustainability ('GSS') Bonds.

The team has a leading role on Sustainability coordinator mandates with a cross-asset approach, encompassing a wide range of different company sizes such as:

- L'Occitane International (March 2021): Inaugural sustainability-linked loan. L'Occitane International is a company evolving in the cosmetics industry and mandated HSBC Continental Europe to highlight its CSR ambitions through a sustainability-linked loan integrating four KPIs: Traceability of plants in raw material, renewable energy supply, ESG Rating of its suppliers, and B Corp Certification;
- De Dietrich Process Systems (June 2021): First sustainability coordinator role on an MME customer for CMB in Continental Europe.

CMB Sustainable Multi-partnership

Since 2020, full roll out of the multi- partnership with five experts in ESG, CSR strategy, energy transition and duty of care has been completed: *Economie d'Energie*, EcoVadis, EcoAct, Ethifinance and Ernst & Young. EcoAct, Ethifinance, EcoVadis and EY are consistently introduced in meetings with Midmarket and Large Corporate customers. Economie d'Energie's scope has been extended from small and medium-sized enterprise clients to Midmarket customers' franchise, with the intention of supporting a wider range of clients. This multi-partnership is a strong asset for HSBC Continental Europe and has been recognised as best practice in the HSBC Group.

Ambassadors and trainings: Spreading knowledge

A first layer consists of providing a sustainable finance initiation open to all. Two 'Green Fridays' sessions were organised with a total of 198 participants attending the first session on European Taxonomy and Nature-Based Capital. 145 participants attended the second session on Low carbon methodologies and IPCC Report / COP26. Sustainable finance updates are made throughout the year, and specifically during the dedicated Sustainable Finance Month and the annual Climate Action Festival.

The second layer focuses on more specific sustainable finance training with a targeted audience based on function and business. This includes:

- Intensified and expanded training from our multi-partnership experts;
- Additional training sessions from an external company on sector specifics (152 participants on Agrifood and 103 participants on Real Estate) and INVEEST programme on energy efficiency financing (30 participants over the last quarter);
- Internal sessions organised centrally for coverage teams and risk stewards, intended to drive momentum on sustainable finance topics and counteract greenwashing.

A third layer, limited to selected members, provides further expertise on sustainable finance through innovative training sessions developed by the Lab Sustainable.

Dedicated governance on sustainable finance and approach on ESG risks

EcoVadis IQ, a platform developed by EcoVadis, provides an overview of the inherent ESG risks for companies based on their sector, size and country. The platform has been rolled out during a trial period from August 2020 to March 2021 to selected Commercial Banking frontlines and risk stewards in France. Since then, access to the platform has been extended to all Corporate Banking Centre frontlines and, most recently, to Business Banking Centres.

A Sustainable Finance Forum ('SFF') was launched in December 2020 to oversee CMB France sustainable finance transactions. SFF is chaired by the CMB Sustainability Lead, with 'Gatekeepers' assessing transactions' compliance with market standards and HSBC product governance guidelines, and in particular contribution towards KPI targets. Following the launch of the new Sustainability Linked Loan Principles ('SLLP'), SFF expectations have been revised according to a five pillars analysis.

Expertise has been built within the Sustainability Lead team on low-carbon trajectories and associated methodologies, from carbon accounting to forward-looking trajectory definitions.

Growth of responsible investment within Wealth Management

HSBC Continental Europe has been active in sustainable finance for almost 20 years and is keenly aware of the importance of sustainable development.

To this end, it has insisted since 2007 that Environmental, Social and Governance criteria be embedded in these investment processes, alongside the usual financial criteria. Today, every single asset management product applies ESG criteria as part of the investment decision-making process.

In keeping with its approach, HSBC in France also offers a whole range of Socially Responsible Investments ('SRI') and indeed introduced its first SRI fund in 2001. The bank subsequently expanded its offering and in October 2019 launched an SRI range mainly consisting of direct euro-zone investments with various management options (from highly conservative to highly aggressive) to round out its line. The seven funds in the HSBC Responsible Investment Fund ('HSBC RIF') range cover all asset classes and are housed in a single French-registered SICAV. They cater for every risk profile and are all certified with an SRI quality label.

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

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

Since 2017, HSBC continental Europe has also marketed so-called theme-based sustainable funds, such as HSBC Climate Change, or the Lower carbon funds, which aim to evaluate all portfolio equities using an investment process that identifies and classifies the most attractive shares in the fund's investment universe to reduce exposure to carbon-intensive activities and thus its carbon footprint.

More recently, the HSBC GIF Global Equity Sustainable Healthcare fund was launched in 2021. It aims to generate long-term capital appreciation and income by investing in an equity portfolio of companies with good ESG practices and delivering clinical innovations at an affordable cost. The focus on innovation aims to help lower the overall cost of healthcare. This theme-based fund aims to achieve a positive social impact.

With the breadth of these ranges catering for different investor sensitivities, HSBC Continental Europe can provide a solution aligning investors' financial investments with their own individual values, whatever their risk profile, for the benefit of the sustainable economy.

The resilience of the SRI and theme-based ranges and the combined commitments of the bank and these investors have produced outstanding results. The funds have generated over EUR 394 million in the year, in contrast to a EUR 113 million outflow from non-SRI UCITSs over the same period.

Money invested in the sustainable development funds now accounts for almost 26 per cent of HSBC Continental Europe's assets under management, with the SRI range accounting for 24 per cent. Given this success, the bank continues to develop sustainable products and also to educate its network of advisors through regular training and communication on subjects relating to sustainable, socially responsible finance, in order to build awareness among HSBC staff, who are the main source of information for customers.

This extensive and unmatched product range allows customers to invest in the theme of sustainable finance in a manner attuned to their risk appetite.

Growth of responsible investment within Private Banking

HSBC Private Banking in France has established a range of responsible and environment friendly investments for both discretionary and advisory management such as the upcoming launch of a sustainable development mandate with a reduced carbon footprint compared to its benchmark. The key investments in 2021 were:

- A new discretionary sustainable development solution has been developed. It is designed to deliver sustainable investment without giving up on the market performance opportunity. It benefits from ESG ratings from MSCI and Sustainalytics to quantify the ESG impact of the managed portfolio and the carbon footprint from S&P Trucost. The objective is to redirect the savings of our clients towards investment solution linked to the sustainable development theme in order to strengthen traditional discretionary management;
- The Private Bank also offers a diversified range of environmentally sound investment solutions. This range has been expanded by the launch of new HSBC Sustainable ETF Range ETFs and a selection of external funds. More sophisticated investment themes are also covered, such as forestry assets and philanthropy, to promote diversification of assets via informational webinar. Since January 2021, almost 10 per cent of orders under advisory mandates have been directed to SRI funds;
- Structured green products were offered to our customers which construct by a green bond with its underlying green indices, or live securities that have received a satisfactory ESG rating.

Development of sustainable investment within Insurance integrating ESG issues and climate risk.

As part of the management of the non linked assets of the company, HSBC Assurances Vie (France) has established since 2019, a sustainable investment policy. This policy integrates, in line with HSBC Group Policy, exclusion criteria for specific activities within a pre-defined list of sectors with negative ESG impacts : Agricultural products; Chemicals; Defense equipment; Energy (including coal-fired electricity generation, both existing and new); Forests (including deforestation); Mining and metals; Protection of World Heritage sites (UNESCO, Ramsar); Banks violating the Equator Principles.

In particular, for coal, the policy specifies a threshold for a company to be excluded: 20% of turnover coming from coal activities in 2021 with an objective to lower to a 10% threshold in 2022.

The Insurance company investment policy also relies on the expertise of HSBC Asset Management (France), taking into consideration ESG factors integration.

By November 2021, 83% of assets benefit from the integration of these factors, defined by the HSBC Group, as criteria for selection of investments.

HSBC Assurances Vie (France) also considerably increased its sustainable investments in 2021. First investments have been made into social bonds (EUR97m) and sustainability bonds (EUR40m) and investments in green bonds were also continued (EUR132m more in 2021).Additional investments were made in the HSBC RIF - Europe Equity Green Transition fund for EUR20m, a Climate thematic fund for investors to help accelerate the transition to a greener world, reaching the total size of the investment near EUR 51m. Regarding real estate, ramp up in the fund NEIF III continued and we can note its excellent result of the GRESB rating 2021. HSBC Assurances Vie (France) is also participating in the French Federation of Insurers post COVID-19 initiative for sustainable recovery split into two kinds of instruments, both including strong ESG integrated framework :

Bank loans called 'Recovery participating loans' (Prêts participatifs Relance ; EUR200m); and Subordinated bonds called 'Recovery bonds' (Obligations Relance ; EUR30m).

In addition, HSBC Assurances Vie (France) regularly develops its Unit-Linked offer, including retirement savings. This offer is enriched with sustainable investment solutions, both through funds labelled SRI, solidarity-based finance or GreenFin and through structured products based on ESG indices. Thematic funds reinforce financial diversification on major societal issues, with the entire range of investments meeting the risk appetite and expectations of policyholders.

Subscriptions and payments on these unit-linked sustainable investments represented 34% of total Unit-Linked inflows in 2021.

Asset management contribution to managing climate risk and to responsible investment

New Responsible Investment Team

HSBC Asset Management has strengthened its sustainability proposition with the creation of a Sustainability Office and reorganisation of its Responsible Investment team.

The Sustainability Office is responsible for the delivery of HSBC Asset Management's sustainability strategy and the business-wide transition to sustainable investing. The team also drives the firm's people-focused initiatives, including Diversity, Equity & Inclusion, as part of its ambition to embed a sustainability culture across the business. The creation of our Sustainability Office reflects the strategic importance of sustainability to our business and will enable us to be at the leading edge of this change.

Within the investments function, the Responsible Investment group overlooks the integration of ESG risks and opportunities across asset classes, as well as the firm's voting policy and engagement initiatives. It also leads the development of new ESG, climate change and thematic products and solutions, the delivery of thematic research contributing to industry best practices and supporting thought leadership, working closely with the Sustainability Office to deliver on the firm's strategic objective of becoming a leader in sustainable investing.

Supporting Net Zero Transition to create positive real economy impact

As an asset manager, we deliver a range of investment solutions to our clients that integrate key climate and sustainability considerations (both opportunities and risk). As such, climate risk management is a key feature of our investment decision making and portfolio management. In addition to our analytical capabilities, we engage directly with companies on priority topics related to climate risk in order to drive positive behaviour change and sustainable outcomes. We also publicly disclose our progress in addressing climate-risk and advocate for supporting policies.

With HSBC Group having committed to being carbon neutral by 2050, asset management played an ever more active role in 2021, developing solutions and methodologies designed to attenuate climate risk. It appears clearly that the companies best prepared for climate change, those engaged in a credible process of transformation and perceived as such by the market, will be those best placed to build value. HSBC Asset Management's fiduciary duty to its clients logically requires it to evaluate the resilience of its investments to climate risk and to contribute actively to the transition to a low carbon economy.

Climate change is one of the most urgent issues facing us today. To accelerate our commitment in responsible investing and push forward the transition to a low-carbon economy, we joined the Net Zero Asset Managers initiative in July 2021. As one of the signatories, we will work towards the target of net zero emissions across all assets under management ('AUM') by 2050 or sooner.

This follows the recent launch of Climate Asset Management, a joint venture between HSBC Asset Management and Pollination, a global climate change advisory and investment firm, with the ambition to create the world's largest dedicated natural capital asset management company. Climate Asset Management intends to establish a series of natural capital funds, investing in a diverse range of activities that aim to preserve, protect and enhance nature over the long term, and support efforts to address climate change.

HSBC's offering is innovative, diversified and ambitious

In 2021 HSBC Asset Management launched the HSBC MSCI World Climate Paris Aligned UCITS ETF, aligned with the Paris Agreement's goal of limiting global warming to 1.5°C above pre-industrial levels. In addition, in July 2021, HSBC Asset Management announced the launch of its first HSBC GIF Global Equity Sustainable Healthcare fund, a thematic fund that aims to drive social impact without sacrificing performance. It offers high conviction and bottom-up analysis paired with macro-economic trends. Furthermore, in October 2021, the HSBC ESG Sterling Liquidity Fund was launched following a Best-in-Class Strategy to ESG investing by identifying the issuers that demonstrate they are best at addressing ESG issues.

Climate change commitments

For HSBC Asset Management, engagement with the companies we invest in, to better understand and support their practices in terms of climate reporting, the management of risks and opportunities related to climate change and our policy in this area, is an important step in the process. Asset Management also adopts direct, collaborative engagement initiatives (such as ClimateAction100+) and makes informed and appropriate voting decisions based on whether such companies meet our expectations on their net zero transition journey.

Disclosures

HSBC Asset Management has since 2014 supported the 'Non-Disclosure Campaign' initiated by CDP *(1)* . This targets companies in high-emissions sectors, which still do not contribute to the CDP database, despite its widespread use by investors. HSBC Asset Management is convinced that measurement of greenhouse gas emissions ('GHG') allows companies to improve management and, ultimately, reduce emissions. In addition to this, since 2018 the CDP integrates the principles of the TCFD recommendation in its climate questionnaire.

Recognising that the quality of corporate disclosure has a direct impact on minimising the risks of greenwashing at the investment product level, HSBC Asset Management works closely with regulators and companies to ensure that corporate and financial disclosures are aligned. HSBC Asset Management strives to provide high quality investor engagement in an attempt to truly understand the DNA of a company and their progress.

In 2021, we have continued our issuer engagement activities by outreaching to 326 companies and have seen an increase in the rate of positive responses on their GHG emissions.

HSBC Asset Management was one of the first institutions to sign the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures, and started to publish the carbon footprint of its equity portfolios in 2015 after signing the Montreal Carbon Pledge.

(1) The Carbon Disclosure Project is an organisation that publishes the environmental impact of the largest companies.

ESG integration process

HSBC Asset Management is certain that ESG issues can have major repercussions on companies' performance. Challenges such as climate change, water scarcity and availability, deforestation, health and safety and the remuneration of directors create risks and opportunities for companies that financial markets may not have valued accurately. This is why ESG criteria are integrated into the analysis of financial securities, alongside financial fundamentals. This analysis varies from sector to sector in order to take account of the specific features and industrial reality of each. The associated risks and opportunities thus identified help produce better informed investment decisions. As of December 2021, more than 19,000 financial instruments around the world were covered by an ESG score and ESG analysis accessible to all analysts and Portfolio Managers at HSBC.

We have also embedded the Sustainable Finance Disclosure Regulation ('SFDR') principles in our ESG Integration process. The European SFRD came into force on 10th March 2021 with an emphasis on disclosures of sustainability risks. Amid an increasingly crowded market for sustainable funds, it introduces disclosure requirements aiming to provide more ESG transparency and prevent 'greenwashing' of financial products. HSBC Asset Management has long factored environmental, social and governance ('ESG') considerations into the way we select and manage our investments. Understanding related risks and opportunities not only enhances decision-making and risk-adjusted returns, it helps address the most urgent challenges facing our planet today.

We believe that ESG issues impact the long-term valuation of companies and the investment attractiveness of countries. If ESG risks are not managed well by the companies and Governments we invest in, this could impact their profitability and therefore the investment returns for our clients. Our Responsible Investment Policy sets out our ambitions and our approach to responsible investment and describes how we meet the requirements of the European SFDR. In addition, the Responsible Investment Implementation Procedures set out the approach we take to identify and respond to principal adverse sustainability impacts and how we consider ESG sustainability risks as these can adversely impact the securities our funds invest in. Additionally, SFDR creates fertile ground for continuing to build meaningful dialogue and engagement with constituent companies especially the ones where sustainability risks are deemed to be high. Such engagement helps build long-term performance for our clients in light of ESG issues and opportunities.

Focus on ESG research for bond assets

For the Fixed Income asset class, we have implemented a new tool for our internal credit rating whose aim is to provide more transparency and consistency among regions and sectors, hence easier comparability. At the same time, we have updated the ESG factors that have long been part of our internal credit rating methodology. The purpose was to better capture the increasing importance of sustainability factors within the business framework of our issuers and identify the growing influence of important themes, such as climate transition or biodiversity. At the industry level, we defined industry-specific key ESG risks factors; each of them being affected a weight that contributes to the overall internal rating. Therefore, we are able to better assess the materiality of ESG factors and their impact on credit quality of our issuers. This internal credit rating methodology has been established by our Global Credit Research teams worldwide in collaboration with our Fixed Income Quantitative team.

The Fixed Income team also developed a proprietary Climate Score combining qualitative and quantitative environmental factors. This score combines some current carbon metrics like carbon intensity but also much more innovative ones like 'avoided carbon' and aims at measuring climate ambition. At present, the Climate Scores have been attributed to our European issuers, but the aim is to expand to other market segments.

Engagement in protecting biodiversity

Building on collective undertakings to tackle climate change (Climate Action 100+, IIGC, One Planet Asset Managers, etc.), HSBC Asset Management joined the Finance for Biodiversity Pledge initiative in September 2020. This seeks to protect and restore biodiversity through financing and investment. We have undertaken to bring our expertise and global reach to bear in a collegiate approach towards identifying more sustainable investments in agriculture, forestry, land use and other nature related areas. In addition, the Pollination partnership helps cement HSBC's ambition to become the biggest manager of 'natural capital' funds worldwide.

HSBC Asset Management has been an active participant in the Principles for Responsible Investment (PRI)-led engagement projects tackling commodity-originated deforestation since their inception back in 2018. HSBC Asset Management was among the 230 investors supporting the public statement on deforestation and forest fires in the Amazon released in September 2019. HSBC is now a member of the Sustainable Commodities Practitioners' Group which aligns demands, metrics, and practices to reduce and prevent deforestation. In addition, each year we encourage a number of our investee companies to respond to the CDP questionnaire on forestry, a starting point on their journey towards improved practice.

Voting and shareholder engagement

Engagement is an integral part of the fundamental research process and long-term investment approach at HSBC Asset Management. Equity and credit analysts from the active management teams, together with portfolio managers, are in direct contact with issuers throughout the investment process, from before to after the investment period, and follow up ESG issues as part of their research and their discussions. Engagement initiatives are determined as a function of the size of holdings, the issues identified and overall exposure, expectations in terms of change and the ability to achieve the expected results. Thanks to this approach, at each stage of the investment cycle the main ESG issues are integrated in analysis and the decision-making process, in order to reduce risk and optimise performance.

As a first step, HSBC Asset Management might notify the Chairman and non-executives of its concerns or vote in such a way as to express its concerns over a company's lack of action. If these measures do not produce results, we can join forces with other investors or bring the problem to the notice of a broader audience through statements, letters to the press or participation in shareholder meetings, with the submission of shareholder resolutions.

Over the past four years, this shareholder engagement has increased significantly in the wake of the integration and improved understanding of the effect that ESG issues can have on the performance of companies. In 2021, HSBC Asset Management addressed ESG themes with over 1,800 companies and other issuers in 73 markets. In addition, by year end, HSBC Asset Management voted on more than 84,000 resolutions at over 8,400 company meetings across 72 markets.

Building employees' expertise in sustainable investment

To encourage employees to develop their expertise around sustainable finance and investment challenges, HSBC Asset Management has organised a series of initiatives:

- A series of Responsible Investment Talks held with internal experts and external speakers, aimed at educating our employees on sustainability issues, with high attendance rates. The topics covered were: Biodiversity, Climate change, ESG Integration, The S in ESG, Impact Investing and United Nations Sustainable Development Goals;

- We support our employees in obtaining the CFA Certificate in ESG Investing, and for every employee who successfully achieves it, HSBC Asset Management makes a donation of 25 trees to the International Tree Foundation;
- Next Generation focus groups have been held monthly in the first half of the year with a senior leader discussing a sustainability topic with our next generation of employees to create engagement and bring fresh perspectives to our sustainability strategy;
- A Sustainable Eating Pledge initiative was launched around the time of COP26 to inform and engage employees on the carbon footprint of our diet.

Building employees' expertise in sustainable finance issues

All in all, more than 1,800 participants were registered in the nearly 27 training sessions organised in 2021 by Commercial banking and Corporate Sustainability (12 per cent increase in participants versus 2020). In addition, in 2021, over 600 participants were registered in the sustainable finance modules accessible via HSBC University.

Factoring sustainable finance criteria into remuneration

The HSBC Group's management committee is responsible for implementing the sustainability strategy, which results in specific long-term targets for the Group's executive directors and chief executives.

The 2021 annual incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Executives contain customer and employee measures linked to the outcomes that underpin the Group's ESG metrics. These carry a 30 per cent weighting in the scorecards of the Group Chief Executive and Group Chief Financial Officer. In addition, for the executive Directors, a 25 per cent weighting is given to environment and sustainable finance measures in the 2020 and 2021 long-term incentive ('LTI') scorecards, which have three-year performance periods ending on 31 December 2023 and 31 December 2024, respectively. The targets for these measures are linked to the Group's climate ambition of achieving a reduction in its carbon footprint and facilitating financing to help clients in their transition to net zero.

For HSBC continental Europe, targets such as reduction of carbon footprint, sustainable finance expansion, and support to Group climate ambition are criteria included in the CEO's annual scorecard and taken into account when assessing his annual performance that underpins his variable remuneration.

Performance indicators for risks relating to the non-alignment of financed emissions with a net zero pathway (theme 1)

	2021	2020	2019
Cumulative contribution to Group's sustainable finance 2030 objective since 1 January 2020 (USDbn)	**42.6**	15.3	NA
Exposure to coal in total loan portfolio	**0.21%**	0.16%	NA
Evolution of net new money in responsible investment funds year on year	**87%**	(2)%	164%

Controlling the bank's direct carbon footprint to manage the risk relating to the non-alignment of the bank's operational carbon footprint with a net zero pathway (theme 2)

The HSBC Group has committed to becoming carbon neutral in its own operations and supply chain by 2030 or sooner. As part of this, HSBC is reducing its energy consumption and increasing the proportion of energy coming from renewable sources to 100 per cent by 2030.

HSBC Group publishes its annual carbon emission results in its annual report, available on its website (https://www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre).

To help fulfil HSBC's strategy, HSBC Continental Europe focuses its attention on four objectives:

- improving energy efficiency;
- reducing greenhouse gas emissions, notably those related to business travel;
- reducing paper consumption;
- reducing production of non-recycled waste.

Reducing greenhouse gas emissions

HSBC reports its emissions following the Greenhouse Gas Protocol, which incorporates the scope 2 market-based emissions methodology. We report greenhouse gas emissions resulting from the energy used in our buildings and employees' business travel. Due to the nature of our primary business, carbon dioxide is the main type of greenhouse gas applicable to our operations. While the amount is immaterial, our current reporting also incorporates methane and nitrous oxide for completeness. We do not report employee home working emissions in our scope 1 and 2 performance data.

In 2021, the main areas of action involved the on-going policy of building renovation, actively seeking to reduce energy consumed in the management of HSBC sites, and promoting remote working and reducing business travel.

At the end of 2020, the previous HSBC Continental Europe headquarter located in the Champs Elysées avenue (30,525m^2) has been disposed. In the meantime, HSBC Continental Europe moved its headquarter to 38 Avenue Kleber, Paris. This has made a reduction of 17,961m^2 of office space (net internal area). The new headquarter has been fully opened in March 2021 and was chosen for its eco-responsible qualities, having received BREEAM and BBC Effinergie certification. In addition, its builder received an exceptional HQE rating.

Another project has drastically reduced the space of *Coeur Defense* office building in 2021. At the end of 2021, approximately 18,581 m^2 will be vacant mainly due to the strong expansion of remote working across the bank and rationalization of office spaces.

This resulted in an office building footprint reduction for the two main office buildings of HSBC Continental Europe in France.

Transport

The pandemic continued to affect business travel in 2021.

Total kilometres travelled decreased by 15 per cent: nearly two million kilometres less (the equivalent of five trips from the Earth to the Moon) compared to 2020.

International travel (about one third of total air kilometres travelled) has shown a slight upward trend since the reopening of borders and less stringent travel rules following the vaccination campaign have encouraged increased air travel in the first half of 2021. Domestic travel has increased as a result of Global banking and markets and Commercial banking plans and discussions related to the sale of the Retail banking network. As a consequence, greenhouse gas emissions have increased by 24 per cent.

In 2021, our preferred taxi booking service provider (90 per cent of our kilometres travelled by taxi) is set up with a preference for green badged taxis by default for all its subscriptions (apart from Club Affaires). The number of kilometres travelled per taxi journey for this provider is now accurately provided (on average 8 km/ journey). We use the same methodology for estimating kilometres travelled with other taxis refunded by expense claims. Greenhouse gas emissions are calculated using GHG Conversion Factors for Company Reporting recommended by Business, Energy & Industrial Strategy ('BEIS') for UK and global companies. Our emissions reported have been impacted by a small downward revision of some of these factors.

In total, greenhouse gas emissions from transport were 0.21 tonnes eq. CO_2 per year per employee, up 24 per cent compared to 2020.

In accordance with French decree no. 2011-829 of 11 July 2011 on greenhouse gas emission footprints and the local climate energy plan, HSBC Continental Europe has compiled and published its carbon report for 2020, showing a decrease of 37 per cent in tonnes of $C0_2$. Information on the company's 2021 greenhouse gas emission footprint is available (in French only) on https://bilans-ges.ademe.fr/fr/bilanenligne/detail/index/idElement/7330/back/bilans#

Circular economy

HSBC Continental Europe continues to seek to reduce waste production in general and a reduction on non-recycled waste in particular. Waste production fell from 591 tonnes in 2020 to 331 tonnes in 2021.

Electronic waste

Since the beginning of 2020, 887 mobile phones have been collected from HSBC Continental Europe employees and entrusted to Recommerce Solutions for recycling or reuse, thus contributing to sustainable development:

- 5,027 kg of CO_2 saved thanks to the re-use of products;
- 112,596 MJ of primary electricity use avoided thanks to the recycling of products;
- 35,480 kg of primary raw material saved for the reused phones.

Reconditioned products are sold by Recommerce primarily in France through the following distribution channels:

- Second-hand shop retailers;
- Recommerce's online shop for guaranteed second-hand products;
- Specialised e-commerce sites;
- Eco-organisations for recycling or material recovery.

However, as the French second-hand market has not yet reached a sufficiently mature threshold to guarantee regular resale, Recommerce also resells abroad. Their export policy is very strict and complies with national, European and international regulations.

E-Signature

In 2021, an average of nearly 20,000 transactions per month were set up using e-signature in France, resulting in a total of more than 240,000 e-signed transactions throughout the year, which is almost twice the number for 2020.

E-signature has made it possible to save the printing of approximately 13.5 million pages in 2021.

For more detailed results on HSBC Continental Europe's environmental policy commitments, see hsbc.co.uk or hsbc.com.

Awareness-raising measures

Throughout 2021, the Corporate Sustainability Department organised awareness-raising activities on the environmental footprint, and more specifically, on the digital footprint and good practices to be implemented in view of the development of remote working and the use of digital technology. Several webinars were held during the European Sustainable Development week in September and the European Waste Reduction week in November, as well as regular articles in the Corporate Sustainability Department's monthly newsletter.

Performance indicator for risk relating to the non-alignment of the bank's operational carbon footprint with a net zero pathway (theme 2)

	2021	2020	2019
Greenhouse gas emissions[1] (tonnes equiv CO_2) per employee[2]	**0.48**	0.48	0.6
Evolution year on year (%)	**—**	(21)	(10)

1 With the change in scope from HSBC France to HSBC Continental Europe, the indicator has been recalculated for 2019 on the basis of the 2020 scope.

2 This absolute greenhouse gas emission figure covers scope 1, scope 2 and scope 3 (energy and business travel) emissions for HSBC Continental Europe in France.

Managing the risk of customer disappointment: Listening to our customers to meet their needs (theme 3)

The HSBC Group remains committed to listening to customers, whose feedback has helped us improve our products and services.

We also have clear policies, frameworks and governance in place to protect our customers. These cover the way we behave, design products and services, train and incentivise employees, and interact with clients.

The Bank will keep on working to simplify processes and optimise the customer experience, particularly in terms of being contactable, having pro-active relationship managers and improving the customer pathway.

To guide this work, we measure and report on customer satisfaction data for all of our business lines within our Strategy Report.

Monitoring customer recommendation and satisfaction rates in Private Banking and Wealth Management in France

HSBC Continental Europe aims to be the first-choice wealth manager for its customers, and strives for excellence in the service and customer experience it provides. HSBC's customers lie at the heart of its approach.

Customer satisfaction in retail banking in France

Net Promoter Score ('NPS') is the consistent measure used to assess our performance across the HSBC group. Customers are asked to give a recommendation score for HSBC with reference to the banking relationship with their adviser or any interactions they have had with the bank (Customer Relations Centre, LiveChat, Online Banking, or Branch). The NPS is calculated from their responses as the difference between the proportion of promoters (customers giving a score of 9 or 10) and detractors (customers awarding between 0 and 6). Customer Experience in France has been measured through this methodology since 2020.

In 2021 48,785 individual customers were surveyed with results in a positive trend and beyond the bank's targets. This performance, achieved during the pandemic and with the announcement of the sale of the Retail bank in France, reflects the professionalism of our teams, key for our customers' experience.

The NPS scores measured for remote access channels were strong: +60 on average over the year for the Customer Relations Centre (+10pts versus 2020) driven by the soft and hard skills of our agents; +41 for users of online banking (+31 in 2020) thanks to the continuous improvements on the platform and +58 for LiveChat, a channel enabling a quick response to our customers. The visits in our branches are also well perceived with a NPS of +51, reflecting the quality of customer care. In a specific survey for Premier customers, HSBC performs better than the competition on relevance of advice and proactivity of our Premium Relationship Managers.

For the 3rd consecutive year, the retail bank of HSBC Continental Europe was named one of the best retail bank for students thanks to its offer, its fees and rates (Sélectra Awards – comparing 34 banks and 46 offerings). In addition, HSBC was awarded four prizes during the 36th ceremony of *'Les Corbeilles de la Gestion'* delivered by the magazine *'Mieux Vivre Votre Argent'*, a reference in the banking sector. HSBC Continental Europe was named best bank for fund performance over five years and number 2 for fund performance over one year (retail banking). In particular, HSBC ranks first in the diversified fund range over five years and in the sustainable fund range over one year. These awards illustrate not only the performance of the bank's products and strong customer expectations, but also the bank's commitment to sustainable finance.

Monitoring of retail customer complaints in France

In 2021, the customer complaints volume continued a downward trend decreasing by 32 per cent compared with 2020. Over the year, that's 23,000 fewer claims entered compared to 2020.

This customer experience has been enhanced by the impact of the reachability program, driven through all customer touchpoints to ease the customer experience.

Moreover, customer behaviour has changed since the Covid-19 pandemic as 55 per cent of complaints are logged directly through the customer's personal banking space (versus 48 per cent before the pandemic).

The quality and speed with which complaints are handled remain the bank's priority and continued to be closely monitored.

Response times remained good with 66 per cent of complaints processed on the same day or the following day and 75 per cent within five working days (versus 63 per cent and 77 per cent respectively in 2020).

Despite periods of lockdown, ability to respond has strengthened over the year.

The main causes of complaints among retail customers in 2021 were as follows:

- Complaints about pricing: 11 per cent of complaints, mainly about charges dispute/explanation or fees negotiation;
- Customer service and support: 7 per cent of complaints mainly linked to the lack of visibility of pending requests;
- Complaints about account closure: 6 per cent of complaints, mainly about delays in processing;
- Complaints about Single Euro Payments Area ('SEPA') transfer: 6 per cent of complaints, mainly about personal banking transfer refusal or delays due to an incident or customer error.

The number of complaints involving the ombudsman decreased by 31per cent versus 2020.

Monitoring of customer satisfaction in Commercial Banking

In France at an overall level we rank joint 3rd, with an NPS of +28 [source: Retail Financial Intelligence H1 2021]. Performance is strongest in our larger businesses (+34) and weaker amongst Mid-Market Enterprises ('MMEs') (+24). In France, HSBC Continental Europe leads the market in terms of digital performance with a score of 7.92 and we continue to demonstrate good performance amongst Relationship Managers with a score of 8.16. In 2021 the HSBC Annual Relationship survey in France was conducted by Kantar with fieldwork across both online and telephonic methodologies during the months October and November. Interviews were conducted with 1,000 customers across our commercial banking segments. We assessed customer satisfaction on a 0–10 scale, and the rating was 6.8 which was stable on the previous year.

In Global Trade and Receivables Finance ('GTRF'), HSBC Continental Europe is ranked 3rd in Europe for market penetration [source: Greenwich]. As a direct consequence of the Covid-19 pandemic, the quality of digital platforms and solutions of trade providers has now become a key criterion for Corporates to consider when selecting banking partners.

Actions undertaken by Commercial Banking 's teams aim to enhance proactivity and capability to leverage the large range of HSBC products and services, continuing their ability to better support customer development both in the domestic market and internationally. This includes portfolio review and client planning, training, and the use of new channels such as Zoom to allow an increase in the number of client meetings with experts and senior management. The implementation of new electronic tools has remained a priority with the continued roll out of Adobe Sign to clients being one example.

When focusing on main customer journeys, reactivity, short timeline, request understanding, and support provided during the process remain key satisfaction drivers, shaping a good customer experience. The *Moments of truth* survey report remains stable compared to 2020, demonstrating consistency in customer experience post Covid-19.

Commercial Banking customer complaints handling in France

Commercial Banking in France works on a continuous basis to improve our client experience. Complaints are analysed to identify root causes and implement relevant action plans.

In the current context, economic actors have accelerated their transformation in response to the pandemic. In Commercial Banking in France, our successful remote relationship management distribution model Business Banking Centre Live was extended to more clients. This distribution model allows enhanced agility, responsiveness and reachability. This change of relationship triggered some complaints from a small proportion of our clients (less than 2 per cent) and the complaints were related to topics not directly linked to the change of relationship management mode. The analysis of complaints helped us to identify root causes, and build and implement an action plan to reach the level of satisfaction expected by our clients.

In Commercial Banking in France, the number of complaints increased by 19 per cent in 2021 (1,576 in 2021 versus 1,321 in 2020)

The top 12 reasons for complaints represented 73 per cent of 2021 total complaints. Of these, 35 per cent related to account management issues, 15 per cent related to non-product issues, 8 per cent related to payments and 6 per cent related to trade finance.

62 per cent of complaints were resolved within seven business days, versus 49 per cent in 2020 and 80 per cent in fewer than 15 business days, versus 66 per cent in 2020.

Investing in digital to better support customers

Against a fast-moving economic, political and technological background, it is more important than ever to manage risks, achieve operational excellence and seize growth opportunities. The shift to digital technology, the challenges of the circular economy and new value chains mean that we have to rethink and reinvent the bank–customer relationship. Therefore, HSBC Group is investing heavily in solutions that will make our services ever more simple, fluid, transparent and immediate for our customers.

The Covid-19 crisis has accelerated the digitalisation of the way we interact with our customers. As a result, the share of customer interactions with the network making use of digitally enabled products has increased to more than 30 per cent. The temporary remote solutions to meet customer demands for banking services, such as customer appointments and making purchase orders, have been adopted and extended in 2021.

More than ever, our Private Banking and Wealth Management business in France must become more efficient and get to know its customers better in order to maintain and improve its value proposition and service quality in a difficult market context. For individual clients, the main initiatives in 2021 were:

- Ambitious paperless initiatives which have digitalised commercial brochures, loyalty cards, and e-documents and enabled e-signature for mortgage contracts for all online banking consumers;
- Our digital solution reaching a new stage of development with more personalised interactions with customers through emails, webinars, and small talks based on our customers' needs. The deployment of tools and practices has allowed staff teams to be reached even when working from home (Jabber), provide customers with video-conferencing facilities (Zoom), and accelerated the response rate for emails;
- Simplification of the customer experience when making digital payments enabled delivery of online payment codes through mobile app or online banking as well as offering Apple Pay for our customers;
- Simplification of customer pathways to call centres, with support on extended transaction services, underpinned the delivery of a strong customer experience.

Commercial Banking has continued to improve its e-signature processes, and can now integrate new documents digitally in order to reduce the number of hard-copy documents sent through mail.

Also, Global Banking and Markets has invested in developing digital platforms that allow more efficient and responsible management:

- Cash Flow Forecasting is an additional service on the Liquidity Management Portal that was launched last year. Directly accessible on HSBCnet, this solution gives customers a quick and accurate insight into their future cash needs. It enables customers to improve the management of liquidity risk by increasing the accuracy and quality of cash flow forecasting. This integrated solution predicts all the cash movements that will have an impact on their day-to-day cash position for up to three years in the future.
- The cash flow APIs are a new channel of banking communication, which allow clients to make payments and consult balances and account entries. This HSBC solution helps customers optimise cash management through automated transactions, on a continuous real-time basis. For example, customers can track international payment orders until they are registered on the beneficiaries' accounts.
- Soft Token Net: HSBCnet is HSBC's internet platform for its corporate customers. Secure access is protected by a one-time password generated by a physical token (keypad). As part of the improvements to the HSBCnet customer experience, since April 2020, HSBC Continental Europe customers have been able to connect to the web platform with their smartphone. Directly integrated within the HSBCnet mobile app, the soft token function allows the customer to generate a one-time password from their phone, using biometric security (fingerprint or FaceID) with no additional system needed. HSBCnet customers can therefore use either their physical token (keypad) or soft token (smartphone) according to how they want to connect. The soft token also replaces the physical token for on-line signature requirements.

Private Banking has made it easier to access information and expertise during the period of restrictions on travel and face-to-face meetings with a varied offering of digital content that is accessible to all. The main offerings in 2021 were:

- A revamped public HSBC Private Banking France website to meet our clients' expectations for digital content and easy access to information. This was launched in March 2021. Completely redeveloped in terms of design and navigation, and enriched with content, it aims to offer a better customer experience and responsive navigation.

  https://www.privatebanking.hsbc.fr/index/
- Monthly publications for our clients provided via our newly designed website (financial news, heritage and insurance). Additionally, we offered our clients access to interviews presented by internal and external experts and webinars from HSBC Private Banking France and the HSBC Group.
- Social media exposures including LinkedIn; added to assist us in staying close to our clients.

Risk of customer disappointment performance indicators (theme 3)

	2021	2020	2019
Commercial banking customer overall satisfaction rating (out of 10)	**6.8**	6.8	6.8
Share of commercial banking customer complaints resolved within 7 business days	**62%**	49 %	53 %

Business continuity risk related to a rapid and massive spread of infectious disease (theme 4)

The rapid and massive spread of infectious disease could cause significant disruption to HSBC Continental Europe's customers, suppliers and staff. The bank regards the ability to continue to provide banking and other financial services to its customers as fundamental to its business. The bank has a well-established Business Continuity Incident Management programme in place designed to protect its staff, assets, processes and customers in the event of an interruption to its normal business activities. Business Continuity Plans are designed to respond to several interruption scenarios including communicable disease, unavailability of staff, unavailability of buildings, unavailability of IT services and unavailability of key third party suppliers. Business Impact Analysis and Business Continuity plans are signed off as fit for purpose by each Department Head and are updated annually, or more frequently, whenever significant changes occur in their structure or processes. Regular testing is carried out to ensure Business Continuity Plans remain accurate, relevant and fit for purpose. For HSBC Continental Europe's departments categorised as critical, 100 per cent of Business Continuity plans were up to date at the end of the year. The overall Business Continuity Lifecycle controls (Business impact analysis, Plans and Exercises) for the region have been assessed as effective and compliant against a target appetite of 95 per cent completion – reaching a compliance percentage of 97.9 per cent.

For significant events that may have an adverse impact on the Group, HSBC has an established a Global Major Incident Group, responsible for managing the response. A subsidiary network of Major Incident Groups is also in place to allow an effective and consistent response, to regional, national and global events. Clearly defined roles and responsibilities, combined with a programme of ongoing training and exercising, ensure the capability to provide an immediate and effective response to any major incident. These have been heavily utilised to manage the Covid-19 response, as they would for any communicable disease.

As such, the bank would implement appropriate measures designed to continue service and support to our customers with minimal disruption. The bank has plans to ensure our ability to coordinate a wide response to the challenges posed by any type of communicable disease outbreak. These plans include communications, hygiene and travel, coupled with reducing contagion through high levels of working from home and split-site capability in key locations by making use of our contingency sites for critical processes where appropriate. All work that is migrated offshore to the captive HSBC Global Service Centres ('GSC') is subject to a robust continuity framework whereby all critical work needs to be shared between two locations, can be undertaken from home or has effective in-country local recovery, thereby mitigating concentration risk. HSBC Onshore management have oversight on all aspects of incidents that impact the GSC locations.

Performance indicator for Business continuity risk related to a rapid and massive spread of infectious disease (theme 4)

	2021	2020	2019
Business Continuity Lifecycle controls assessed as effective and compliant	98 %	NA	NA

An inclusive and responsible HR strategy

In 2021, HSBC Continental Europe built on the HR initiatives introduced in 2020.

Internal crisis management and support for business line transformation were key priorities for the Human Resources Department. The 2021 goals of the Human Resources teams were to mitigate risks identified in the highly unusual environment, as well as to continue deploying an inclusive and responsible HR policy.

Responsible management of the pandemic crisis and gradual exit from the business continuity plan to protect staff members, customers and partners

With the pandemic, restrictions were introduced on movement and working on site across all of the Continental European countries where HSBC is present. Significant organisational changes were made from March 2020 onwards under the Business Continuity Plan ('BCP'). Remote working was deployed immediately and on a massive scale (some 90 per cent of employees worked from home in France), so business activities could keep running efficiently and seamlessly.

The branch network took steps to make sure essential services were maintained for customers, such as pooling branch teams from nearby units, adjusting opening times, and introducing shift patterns to handle customer branch visits.

The unprecedented situation, which lasted until October 2021, sparked higher anxiety levels among teams as a result of a number of factors, including:

- Highly unusual working conditions introduced under the BCP framework;
- Exposure to Covid-19-related concerns (contamination, hospitalisation, deaths) and increased personal and/or professional difficulties as a result of the pandemic (isolation, greater domestic and family responsibilities, health issues);
- Period of increased activity owing to the role played by the banking industry in supporting the economy and households;
- Uncertain economic outlook.

These external factors were accentuated by the ongoing business transformation process : reorganisation of GBM, CMB and their support functions, end of the strategic review of the retail banking activities and merger of Private Banking with the Group's Luxembourg-based unit. As a result, measures introduced in 2020 and still in place this year included:

- Real-time monitoring of Covid-19 cases and contact tracing via the Covid-19 officer for the business and the Workplace Health Team, a unit that plays a crucial role in the staff health and prevention framework;
- Regular dialogue with the bodies representing staff;
- Enhanced support for managers;
- A virtual support programme (#resilience) for staff and management (webinars, seminars, wellbeing workshops, manager forums);
- Surveys (Snapshot Survey) and direct dialogue with staff ('Boost Your Bank' workshops). An expanded June 2021 survey included new indicators to shed light on the extent to which the corporate objectives, values and strategy are understood. Staff were also asked about workplace wellbeing and preparations for returning to working on site.

In October 2021, HSBC Continental Europe in France stopped the business continuity plan introduced 18 months earlier. The practical arrangements for returning to work on site amid ongoing uncertainties were laid down by the Human Resources Department to ensure health and safety measures were applied for face-to-face contact between staff, customers and partners (mandatory facemasks, social distancing, arrangements for visits by internal and external customers, preparations for meetings and events in line with attendance-linked health restrictions).

Learning lessons from the positive experiences of remote working trials conducted by HSBC Continental Europe since 2009 and employees' desire for more flexible working arrangements after the pandemic (survey conducted on 11 January and 6 February 2021: 3,183 respondents, two-thirds of whom voiced support for this type of working model), the business refined the company-wide framework in place by entering into a supplemental agreement in April 2021 to the group-wide remote working agreement of 2018 with labour partners. The supplemental agreement broke ground in various areas, with the introduction of:

- 'Flexible home worker' status for staff working remotely for 8 or 12 days per month and 'Flexible office worker' status for staff working remotely for 30 days per year;
- The award of a financial grant enabling staff to buy additional equipment to that provided by the company, a flat-rate annual allocation, restaurant vouchers and the euro-for-euro reimbursement of travel expenses.

Alongside this company-wide framework, HSBC Continental Europe intends to take broader initiatives to foster a hybrid working culture across all the countries in which it operates, drawing on the lessons learned during the pandemic. The goal is for the company to cultivate flexibility, collaboration, learning and staff wellbeing in on-site and remote workplaces.

Supporting the on-going transformation of HSBC Continental Europe

As part of its strategy transformation, HSBC Continental Europe undertook various reorganisation projects that began in 2020 and continued in 2021. This followed an information and consultation process with employee representative bodies at a European level ('EWC') and in the countries concerned.

In France, the reorganisation plans were presented to HSBC Continental Europe's Social and Economic Committee, and multiple meetings were held with labour partners as part of a wide-ranging social dialogue.

Implementation of the reorganisations in Global Banking and Markets, as well as in Commercial Banking, support functions and at the headquarters, was finalised in 2021.

These plans were based entirely on voluntary measures. The support measures they provided for ensured that all staff transfers and departures are handled in a respectful, fair and responsible manner.

Also in France, following the strategic review of the Retail Banking activities commenced in late 2019, a Memorandum of Understanding was signed in June 2021 under which the retail banking business is to be sold to the My Money Bank group. The plan was presented to HSBC Continental Europe Social and Economic Committee on a consultative basis.

Approximately 3,900 staff would automatically be transferred under this deal, including staff working in the central functions and in Digital Business Services ('DBS'), the majority of whom are dedicated to this area of the business.

Distribution agreements with the buyer are set to cover asset management and insurance.

Under the plans, operational control of the businesses will be transferred during 2023, once the regulatory approvals have been gained and the operational IT migration has been completed.

To support staff affected by the sale, a transactional quadripartite agreement was signed in October 2021 by HSBC Continental Europe with the buyer and HSBC Continental Europe's labour partners (unions and the Economic and Social Committee). The buyer has pledged to maintain the collective bargaining status of staff under the HSBC Continental Europe arrangements for 30 months once operational control has been transferred and not to make any job cuts for 12 months.

In Private Banking, a reorganisation was launched in June 2021 including plans to transfer HSBC Continental Europe's private banking activities and all 131 staff to a French branch of HSBC Private Bank Luxembourg SA, with an operational completion date scheduled for the fourth quarter of 2022. Staff members automatically transferred will continue to be covered by the French banking industry's collective bargaining arrangements.

Responsible and inclusive HR policy

As a leading global employer, HSBC's main aim is to formulate an HR policy that helps to develop the employability of staff members, while helping them to realise their full potential for the bank.

In an environment where potential expresses itself in many different ways, HSBC is convinced that employees' differences can truly add value. It places a particular emphasis on diversity in all its various forms, particularly regarding gender, age, skin colour, background, religion, disability, sexual orientation, appearance and opinions. All employees should be able to be themselves, in an organisation that values different profiles and opinions. Making this diversity a real strength is a major priority for HSBC.

Managing the risk of inability to ensure the employability of our employees given the transformation of the banking sector, by developing talent in all its guises and strengthening employability (theme 5)

Employability is a major priority to ensure people can adapt to organisational and technological changes, and more broadly changes in the labour market, particularly amid all the uncertainty and change that affected 2021. To help prepare employees, it is necessary to support them in developing the skills that the business will require in the future.

Accordingly, HSBC provides the resources each employee needs to develop and take control of their career. Support is provided through an efficient training ecosystem (innovative content, tailored formats and individualised training) that facilitates continuous learning, internally and externally, and helps increase employees' adaptability, agility and multi-disciplinary talents.

In 2021, the HSBC Group continued to implement an ambitious upskilling programme, 'Future Skills', backed up locally especially in France by seminars, training sessions, and self-training materials, with a large number of employees taking part. Its aim is to develop the core skills of the future such as curiosity, creativity, teamwork, communication and resilience.

The goal is to help employees take ownership of their career and to adapt to a changing environment.

This aim is pursued alongside sustainability. More information on the HSBC Group's initiatives is available at https://www.hsbc.com/who-we-are/our-people-and-communities

Given this aspiration, we believe that one of our missions is to encourage employees to take part in our development programmes that are open to all, to promote them and to make them easier to access. To this end, we have set a target of 1 out of 3 employees taking one programme module each year. In 2021, the take-up rate was 34 per cent.

Our #resilience and Future Skills development programmes moved into their second year in 2021. We have kept our take-up rates up at a healthy level, and, as the majority of our training sessions have been recorded, all staff are able to watch the content in playback mode.

Lastly, since the second half of the year, we have also run some of our initiatives in English so we are able to offer our programmes to all the HSBC Continental Europe entities.

Championing a range of different learning methods

Since experience and feedback are crucial factors for personal development alongside training, HSBC Continental Europe offers the broadest possible range of resources to help develop new skills.

HSBC Continental Europe continues to encourage managers and employees to adopt and embrace a 70/20/10 model, which combines three complementary approaches to learning:

- 70 per cent from experience-based learning. By seeking solutions based on professional practice, employees benefit from informal learning enhanced by information available on the bank's intranet, websites and business applications;
- 20 per cent of learning comes from discussions with colleagues, internal and external clients and managers. This method is based on regular feedback on aspects that are working well and those that could be improved. The group developed a feedback-gathering tool during 2020, and its use is encouraged both on an ongoing basis and prior to end-of-year reviews;
- 10 per cent of learning comes from classroom-based training or virtual training. Training provision is updated each year, with an emphasis on sharing experience and experimenting to help embed expertise. Given the unprecedented pandemic situation, the majority of classroom-based learning went online, with the exception of regulated courses leading to qualifications.

HSBC University: a platform accessible for all

Providing everyone with access to training is one of HSBC's core objectives, so it has set up a group training platform called HSBC University, available to all staff through the HR portal and on smartphones. It is made up of a library organised by business area themes, covering online training, classroom-based training, videos, articles and first-person accounts among other items.

As every year, our employees will continue to enjoy access to remote training platforms so they can keep learning when they want and at their own pace:

- LinkedIn Learning
- Degreed
- Fitforbanking
- Getabstract

Every HSBC Continental Europe staff member can request access.

In late 2021, Degreed became the go-to training platform. It provides access to internal and external resources in a unique space. As a content aggregator, it gathers material and resources aligned with users' requirements over time.

These short-format training programmes help pique users' curiosity and entrench the learning culture.

To support managerial staff, various leadership development programmes are offered to help build management and leadership skills (inclusive management, authentic management style, management through trust). In addition, a new digital track on hybrid management was launched for managers in late 2021.

Providing support tailored to needs

For many years now, HSBC Continental Europe has offered a custom-tailored approach through individual and group-based coaching, to support and guide employees in their personal development and individual performance, in keeping with the bank's strategy of enhancing collective performance.

The individual coaching programme meets varied needs (taking on a managerial role, professional development, developing employability). Over the past year, it has gone digital under a partnership with a remote coaching platform.

Around 30 coaching programmes were launched in 2021 in France, and two-thirds of them were online.

Group coaching supports teams or staff members sharing common development goals, mainly in areas such as change management and team-building.

In addition, the #resilience support and development programme designed in 2020 continued to run and was expanded this year with initiatives in English catering to the entire HSBC Continental Europe perimeter. The entirely digital programme included wellbeing theme-based workshops, seminars and webinars to upskill staff members and help increase their resilience in these uncertain times.

In parallel with these courses open to everyone, initiatives aimed specifically at managers were also provided (managers forum, dedicated webinars, co-development) to address hot topics such as remote management, dealing with uncertainty and keeping staff motivated.

Preparing for the future: identifying talents

HSBC is mindful that managing talent is a strategic priority, particularly amid the current pandemic situation and economic crisis, as well as strategic decisions that have set in motion a far-reaching transformation at HSBC Continental Europe. As a result, HSBC wants to harness the potential of individuals with profiles best-suited to current and future challenges and help them hone their skills.

Spotting talented individuals involves both managers and employees themselves, so that the process is more coherent and consistent.

Every year, HSBC develops succession plans for positions considered as key. There are clear guidelines to ensure that robust succession plans are in place and to promote gender balance and internal promotions. There is a requirement to have at least four potential replacements for each key post, with at least one female replacement for each post and an 80/20 split of internal versus external recruits.

HSBC is building a talent pool at group level and also within HSBC Continental Europe through various development programmes: Accelerating into Leadership ('AIL') and Accelerating Female Leadership ('AFL') and Explore on a group-wide basis, and Inspire dedicated to HSBC Continental Europe.

Accelerating into 'AIL' and 'AFL' were originally two programmes for developing women's leadership. They aim to increase women's representation on executive bodies by providing tailored training. AIL was opened up to men in 2021.

Explore is a Group programme that has helped staff members assess potential (talented individuals who could become future leaders of HSBC) via various stages of evaluation, based on proven methods from one of the recognised expert consultants in this area. In 2021, around 160 HSBC Continental Europe staff members, including 105 in France, were invited to take part in the programme.Inspire is a leadership development programme designed in France and introduced during 2019. In 2021, it was opened up to all HSBC Continental Europe entities and rolled out in English for the first time. Under the programme, around 30 leading employees take part in a one-year course consisting of innovative and inspiring modules. Individual development targets are combined with collective targets to create a shared vision of leadership at HSBC Continental Europe.

Focusing on internal mobility and promotion

For HSBC Continental Europe, internal mobility is a key way of developing and retaining staff members. By offering internal career development opportunities, it unlocks and recognises the potential of its talented employees, makes them more versatile and increases their sense of trust and belonging to a strong and stable organisation.

HSBC Continental Europe advertises positions for internal mobility on its HR portal, making them accessible to all. Employees can enter details such as internal and external professional experience and skills (such as foreign languages) and their geographical mobility preferences into an HR database. This information is used by the database to find the talent needed with corresponding skills.

In 2021, 377 employees were promoted in HSBC Continental Europe, in equal proportion between men and women.

Promotion

Key figures – HSBC Continental Europe

Gender	Number of promoted FTE	%
Women	**191**	**51**
Men	**186**	**49**
Total	**377**	**100**

Business lines	Number of promoted FTE	%
Markets and Securities Services	**22**	**6**
Commercial Banking	**94**	**25**
Global Banking	**35**	**9**
Wealth and Personal Banking	**148**	**39**
Corporate Centre	**1**	**–**
Global Functions and Supports	**77**	**21**
Total	**377**	**100**

Performance indicator for risk of inability to ensure the employability of our employees given the transformation of the banking sector (theme 5)

	2021	2020	2019
Take-up rates for development programmes open to all on a voluntary basis	**34%**	48%	NA

Managing the risk of failure to recruit and retain talent by attracting and integrating the best people to support the bank's growth (theme 6)

In a rapidly changing banking landscape (digitalisation accelerated by the pandemic, economic crisis, tighter regulatory requirements), HSBC aims to respond to the shift in employment patterns by attracting, recruiting and integrating the best talent.

To support its development and the creation of a stronger Continental Europe platform, HSBC recruits staff from a variety of backgrounds to contribute to the bank's various business lines and functions in France and other Continental European countries.

In order to manage the risk of non-retention of our talented people, we set a target attrition rate of 7 per cent. The 2021 retain talent results show an attrition rate of 7 per cent for France. This rate reflects our resolve and the actions we have taken to engage our talent in HSBC Continental Europe's transformation.

Key recruitment figures

HSBC Continental Europe in France

Gender	Recruitment Permanent Staff[1]	Recruitment Short-term contract[2]	Mobility Joiners from different society	Mobility Joiners from Foreign Country	Total Hiring FTE	%
Women	**160**	**36**	**6**	**5**	**207**	**51**
Men	**148**	**35**	**3**	**11**	**197**	**49**
Total	**308**	**71**	**9**	**16**	**404**	**100**

Business lines	Recruitment Permanent Staff[1]	Recruitment Short-term contract[2]	Mobility Joiners from different society	Mobility Joiners from Foreign Country	Total Hiring FTE	%
Markets and Securities Services	**4**	**1**	**–**	**1**	**6**	**2**
Wealth and Personal Banking	**243**	**58**	**5**	**2**	**308**	**76**
Commercial Banking	**41**	**1**	**1**	**2**	**45**	**11**
Global Banking	**7**	**4**	**–**	**1**	**12**	**3**
Global Functions and	**13**	**7**	**3**	**10**	**33**	**8**
Total	**308**	**71**	**9**	**16**	**404**	**100**

1 External recruitments.
2 of which 57 additional workload contracts, 14 replacement contracts.

HSBC Continental Europe

Gender	Total Hiring (FTE)	%
Women	**228**	**50**
Men	**231**	**50**
Total	**459**	**100**
Business lines		
Markets and Securities Services	**25**	**5**
Commercial Banking	**60**	**13**
Global Banking	**17**	**4**
Wealth and Personal Banking	**308**	**67**
Global Functions and Supports	**49**	**11**
Total	**459**	**100**

Internal mobility remains our preferred channel. Employees can then grow within HSBC Continental Europe, its subsidiaries and internationally. In 2021, in France, 418 internal transfers took place (change of position for existing employee, either as a change of job classification or location).

Recruitment of young people is a major priority for HSBC Continental Europe

In 2021, HSBC continued to recruit young people, despite the pandemic-related difficulties, through its four preferred channels: 211 apprentices, 216 interns and 3 'Graduates' were hired in France over the course of 2021. Induction processes were adjusted so new hires could be inducted remotely where no other alternative was available. Mentors also switched over to remote contact sessions to enable young recruits to enjoy a successful professional experience.

The Global Graduate programme has become highly popular with students. It is an HSBC Group programme for young graduates with a carousel of placements at the beginning of their Global Banking and Markets and Commercial Banking contract. This programme encourages graduates to discover various roles within each division while acquiring cutting-edge skills.

Events were organised to promote HSBC as an employer among young graduates. In 2021, HSBC Continental Europe took part in more than 30 events organised by targeted schools using mostly virtual formats (virtual forum, coaching, recruitment interviews, presentation of HSBC business lines, and Instagram Future Skills interviews).

Performance indicator relative to risk of failure to recruit and retain talent (theme 6)

	2021	2020	2019
Attrition of talent (annual target: 7%)	**7%**	12%	3%

Managing risk related to lack of diversity among teams and psychosocial risks, by creating a framework for engagement (theme 7)

Diversity and quality of life at work are key priorities for HSBC. As well as fostering engagement, they represent an investment in the company's future: we are confident that committed, healthy employees will help us to raise our economic performance to the next level and make the group even more appealing. HSBC Continental Europe has set itself the target of continuing to promote diversity, equality and inclusion, improving quality of life at work, and developing a shared culture of wellbeing at work.

In France, an agreement on professional equality and quality of life at work that runs to 8 March 2022 was signed to achieve these goals. This agreement has two priority themes:

- diversity, equality and inclusion;
- quality of life at work, flexibility of working arrangements and issues around downtime and switching off.

The highly unusual circumstances of the health crisis led us to step up efforts to protect our employees' health and quality of life and to adapt provisions for remote working.

Diversity, equality and inclusion

HSBC believes that our differences make our business stronger. The challenge is to foster and make the most of those differences with the aim of creating internal cohesion, increasing motivation and engagement, and making employees proud to be part of the Group.

Tackling discrimination and championing diversity

Diversity and inclusion have always been part of HSBC's identity. In 2021, HSBC Continental Europe continued to take steps to hone its business culture, with awareness building and engagement campaigns playing a key part in this. For example, HSBC Continental Europe requires its recruitment service providers to provide a shortlist of candidates including at least one man and one woman and, where the post is a management or specialist position requiring more than 10 years of professional experience, at least one 'senior' candidate.

Despite uncertain public health conditions, HSBC Continental Europe continued to recruit for 'summer jobs', working with our equality of opportunity charity partners: Article 1, *Fondation Egalité des Chances* and *Tremplin*. This approach aims to foster greater diversity of origin among summer job candidates. 10 young people benefited from this opportunity in 2021.

Having run its unconscious bias training programme for three years, training over 400 HR managers and professionals, the bank continued the process by launching its new 'Inclusive Leadership' training programme in 2021. In addition, part of the mandatory 'The Code of Conduct & me' training session deals with workplace bias and discrimination.

To broaden the reach of its inclusive business culture, HSBC Continental Europe continued its awareness building programme. This included discussions on diversity and inclusion, seminars and workshops, both directly and by drawing on its Employee Resources Group of committed employees: 50/50 Partner of Balance and Pride Network France.

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

HSBC Continental Europe also supports several organisations thanks to charitable donations programs and 122 employees provided support to talented young people thanks to this programs.

The change in organisational model led to the closure of the HSBC Foundation for Education in November 2021, and now the organisations will be directly supported by HSBC Continental Europe. In 2021, HSBC Continental Europe, aligned with the Future Skills strategy, supported:

- Article 1, *Fondation Sciences Po and Association pour le Développement de l'Egalité des Chances*, which encourage and support young people into further education and improve their chances in the labour market;
- *Adie and Fondation Entreprendre* to increase employability among unprivileged communities thanks to entrepreneurship;
- *Cresus* to develop financial capability and support people in situations of financial fragility.

Gender equality

With women making up more than 52 per cent of executives at HSBC Continental Europe in France, the bank continued its efforts to promote gender equality in 2021.

In addition, the HSBC Group has set itself clear and transparent targets for the proportion of women in senior executive positions. These objectives have two target dates: 30 per cent of senior executives to be women by 2020, target achieved in 2021, rising to 35 per cent by 2025. HSBC Continental Europe continues to invest in reaching these targets.

Furthermore, HSBC Continental Europe signed up this year to the *Financi'Elles* charter, which contains 10 joint commitments aimed at fostering a more equitable gender balance and greater diversity in finance. As part of its drive, the bank has undertaken to achieve a gender balance on HSBC Continental Europe's Executive Committee by 2024, as well as on the executive committees of its business lines and support functions. The gender balance of development programmes will help to accelerate progress towards gender equality in the talent pools. Lastly, gender balance is championed in all the bank's communications. As a result, HSBC Continental Europe has pledged not to attend any more events with an all-male line-up of speakers, and to make sure that gender balance and diversity are embraced at the bank's own internal events.

A comprehensive monitoring dashboard for progress in increasing the proportion of women in positions of responsibility is reviewed twice a year by HSBC Continental Europe's Management Committee.

Employment of people with disabilities

With a reported employment rate of people with disabilities of 5.7 per cent in France (number of people with a recognised disability as a percentage of total employees), HSBC Continental Europe continued its drive to increase the recruitment and employment of people with disabilities in 2021. The bank works in partnership with *Tremplin*, a charity specialising in finding jobs for young people with disabilities in the labour market. This year it has also hosted a new ERG dedicated to disabilities.

During the course of the Covid-19 pandemic, HSBC Continental Europe introduced remote working for its employees on a very large scale. Combined with the transfer of workstation adjustments to their home offices, this enabled as many employees with disabilities as possible to continue working in appropriate conditions.

Particular attention was paid to the theme of mental health again in 2021. Special training for managers, workshops and 'Exchange' discussions all addressed this theme.

To improve day-to-day living standards, in France more than 450 employees living with a disability or employees with a close relative living with a disability received 'CESU' cheques (enabling them to pay for domestic help) financed entirely by HSBC, while over 50 employees were supported through measures to mitigate their disability and maintain their employment, and through a range of practical support including funding for individual equipment or other adaptations.

Improving quality of life at work to foster employee commitment

Providing a high quality of life at work helps cultivate a committed workforce, and so HSBC Continental Europe's senior management focused on this goal to increase employees' sense of fairness and belonging, to foster cohesiveness and to protect employees' mental and physical health, which has become even more crucial during the pandemic.

Increasing employees' commitment is a strategic aim for HSBC, and employees' professional fulfilment is a key priority for the bank.

Awareness-building and training on quality of life at work

Alongside the initiatives already introduced, such as mental health training for managers and employees and the best practice guide on managing the right to switch off and have downtime, HSBC pledged to step up its measures to support employees during the pandemic. Frequent communication, with both employees and managers, and awareness building measures under the #resilience programme are all examples of additional awareness building in 2021.

Giving employees more flexibility

HSBC Continental Europe is taking steps to offer more flexible working arrangements to employees to help improve their work-life balance.

During the course of the pandemic, HSBC Continental Europe led to more than 90 per cent of staff to work from home from the early days of the crisis until the end of 2021. As existing measures to allow remote working had helped to create a flexible work culture, the transition to a more virtual organisation, across all Continental European countries, was a smooth one. Specific training programmes for managers were introduced to support them in more widespread remote working, and this was backed by initiatives to encourage good use of digital tools such as 'We Innovation'.

In addition, for some time now, considerable attention has been paid to maintaining social links within the company, equal treatment of staff, respect for private life and the right to switch off and have downtime. Amid the pandemic, employees were encouraged to use an existing facility to provide details of their location (on site or at home) to allow managers to get a rapid snapshot of the whereabouts of their teams.

Ensuring the appropriate use of digital tools

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

A charter drawn up by HSBC Continental Europe's Executive Committee establishes 10 major principles that aim to spur on and encourage staff members to adopt day-to-day behaviours and rules aimed at achieving the best possible work-life balance.

Throughout 2021, amid the continuing pandemic and widespread use of remote working, employees were reminded of these guiding principles through regular messages sent out via DRH Info, with Q&A packs provided to managers.

This messaging helped raise awareness of approaches to help structure work during lockdowns, best practice for avoiding burnout, preventing isolation and strengthening team spirit.

A guide to appropriate use of digital tools was made available to all HSBC staff and contains best practice for most effective use of digital tools whilst maintaining a positive work/life balance. This guide was added to all communications made available to employees on the dedicated Covid-19 intranet site.

Strengthening the collective ability to manage change and measuring employees' satisfaction and wellbeing on a regular basis

Employees' concerns are taken on board through various channels:

- The 'Exchange' Group programme, under which agenda-free consultation meetings are held that managers attend but without any seniority-based privileges. Staff members are free to discuss any issues they wish. Feedback from the meetings is sent to the HSBC Group. Since the programme was launched in 2012, it has been clear that employees taking part in an Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes affecting HSBC.
- Group engagement surveys: 'Snapshot' is a regular survey of employees around the world, which aims to assess understanding of the bank's strategic priorities and measure perception of changes through various themes such as strategy, communication, customer experience, culture and working methods.

In the first half of 2021, the Snapshot survey produced stable scores for HSBC Continental Europe relative to the previous report. Staff members have more confidence in HSBC's future and its strategy than was evident in previous editions. Conversely, the ability to speak up in the face of unacceptable behaviour and sense of professional accomplishment declined slightly. This area is being addressed by various different bodies to work out relevant steps to take to cement our speak-up culture.

In the first quarter of 2021, a regular survey of the quality of life at work at HSBC Continental Europe was launched in France amid the highly unusual backdrop of the pandemic. This survey, focusing on employee wellbeing and quality of life at work, identified the individual and general views and impressions of the 3,183 employee respondents, including their desire for a better work-life balance. In parallel, over 80 per cent of employees emphasised the quality of managerial support, and 73 per cent the company's accommodation of individual employees' concerns during the crisis period.

A summary of the findings raised by the survey is used to formulate potential HR initiatives and also influences HSBC Continental Europe's programme of continuous improvements in working conditions.

These Group initiatives are supplemented in France by a medical stress-monitoring system (since 2004) and a framework for identifying and measuring work-related stress (since 2012). The most recent findings reflected employee concern over the difficulties facing the banking sector and the worries about a downturn in economic conditions. They also showed that the quality of working relationships with line managers and between colleagues, work-life balance, the work environment, and level of independence remained supportive factors.

Amid the unusual environment prevailing in 2021 as a result of the pandemic, a macro study was carried out. The mental health and work environment metrics were either stable or improved slightly. The significance of these results is tempered, however, by the lower number of respondents than in previous years.

Performance indicators for risks related to lack of diversity among teams and psychosocial risks (theme 7)

	2021	2020	2019
Share of women in senior executive positions (2025 target : 35%)	**30%**	29%	30%

Participation-based programmes

'Boost Your Bank'

Since 2018, in France, 'Boost Your Bank' *(Boost Ta Banque)* participation-based workshops have been held regularly to enable voluntary participants to help improve staff's workplace experience by sharing their own experiences and helping to shape an action plan aimed at enhancing operational practices and increasing engagement.

The 2020 edition of 'Boost Your Bank' gave 115 employees an opportunity to share how they had experienced the unprecedented situation caused by Covid-19, to identify the positive aspects of the crisis and to find ways of retaining these benefits in the process of establishing the 'new normal' at HSBC.

The participants proposed 90 recommendations in three priority areas (remote working, caring, and processes/tools), and these were submitted to Executive Committee members for approval.

In 2021, certain measures came to fruition, including the signature of a company-wide agreement on remote working, while implementation and analysis of others continued.

Boost Your Future

In 2021, the Human Resources Department ran a further series of workshops, called 'Boost Your Future'. Since HSBC Continental Europe is a relatively new entity in the minds of many staff members, the goal is to give them a glimpse of a common future. These two-hour sessions led by the HR Department aim to:

- Provide an opportunity for staff to meet HSBC Continental Europe colleagues from other business lines and other countries;
- Lay the foundations for a shared identity and operational framework;
- Identify the needs that HSBC Continental Europe has to support at a global level in 2022 and in the course of business line transformations in progress.

Deployment commenced in November 2021:

- November 2021 to January 2022: launch of 14 sessions – 7 in French and 7 in English;
- The initial results will be reviewed during January to decide on the preliminary actions to be implemented and the number of complementary sessions to be introduced;
- Senior management will then be informed of the outputs.

An attractive and fair remuneration policy

HSBC Continental Europe's remuneration policy is designed to attract, motivate and retain the best employees. It is a powerful driver of staff engagement, and one that HSBC makes full use of.

HSBC Continental Europe addresses this strategic priority with a remuneration policy that is both attractive and inclusive, to make sure each and every employee is treated fairly and their value is recognised.

The remuneration policy recognises and rewards the efforts made, engagement, involvement, contribution and the collective and individual performance of each of our employees through an annual budget for general and/or selective wage adjustments, individual variable remuneration and, based on results, collective remuneration in the form of bonuses and profit sharing.

It provides financial assistance for employees' day-to-day lives in the form of various contributions, such as for child care, the new academic year, holidays through holiday voucher top-ups or in the event of mobility within the company. Lastly, it provides guarantees that will last throughout an employee's career at HSBC and beyond: continuation of salary and health cover in the event of illness, protective cover in the event of incapacity/disability and the supplementary pension scheme that has been in place for many years to help our employees boost their income in retirement.

This policy forms part of an approach that seeks to treat all of our employees fairly and is best illustrated by a few examples:

- For more than 10 years, the collective agreements that HSBC Continental Europe in France has entered into have included an automatic salary review for people returning from maternity or adoption leave;
- Specific fairness budgets over the last 10 years (EUR 9.1 million) have helped establish wage fairness in several areas;
- Women's pay, across almost the entire grade scale for the banking sector, was between 98.4 per cent and 101.4 per cent of men's pay in 2021.

Ratio theoretical wage W/M - HSBC Continental Europe in France

Status	Convention Level	2021 %	2020 %	2019 %
Technician	C	**–**	–	–
	D	**–**	–	–
	E	**99.3**	98.8	98.6
	F	**101.4**	101.1	100.6
	G	**100.8**	100.9	100.2
Executive	H	**99.2**	99.1	99.6
	I	**98.4**	98.5	98.6
	J	**99.6**	98.6	98.6
	K	**100.3**	100.6	100.1

Pay for employees working part-time, across different employment grades, was between 97.1 per cent and 104.7 per cent of that of full-time employees in 2021.

Ratio theoretical wage Part Time W/M - HSBC Continental Europe in France

Status	Convention Level	**2021 %**	2020 %	2019 %
Technician	C	**–**	–	–
	D	**–**	–	–
	E	**104.7**	106.5	104.6
	F	**103.8**	104.3	104.9
	G	**101.0**	101.3	101.7
Executive	H	**100.5**	100.9	101.3
	I	**99.3**	99.3	99.2
	J	**100.0**	99.6	99.7
	K	**97.1**	98.2	98.8

The salary of disabled workers was between 97.5 per cent and 107.8 per cent of that of all workers. Personal service vouchers ('CESU') financed in full by the company were introduced in 2015 to assist employees with disabilities and employees with a close relative with disabilities.

Ratio theoretical waged disabled employees/other employees - HSBC Continental Europe in France

Status	Convention Level	2021 %	2020 %	2019 %
Technician	C	**—**	—	—
	D	**—**	—	—
	E	**107.8**	112.8	111.2
	F	**104.4**	105.9	104.9
	G	**101.9**	102.7	102.5
Executive	H	**99.7**	100.9	100.8
	I	**97.5**	97.5	97.3
	J	**98.5**	98.0	98.9
	K	**101.7**	99.4	100.3

Table of social performance indicators of HSBC Continental Europe

	Change		
Indicators	**2021**	2020	2019[1]
1 – Workforce split by status, gender and contract of employment ('FTE') Dec 31			
Total FTE – HSBC Continental Europe	**7,451**	8,517	8,857
– of women :	***4,164***	*4,741*	*4,920*
Markets and securities services	***191***	*222*	*ND*
Global Banking	***120***	*245*	*ND*
Commercial Banking	***547***	*806*	*ND*
Wealth and personal banking	***2,221***	*2,301*	*ND*
Corporate Centre	***3***	*3*	*ND*
Global Functions and Others	***1,082***	*1,164*	*ND*
% Women	***55.9***	*55.7*	*55.5*
– of Men :	***3,287***	*3,776*	*3,937*
Markets and securities services	***255***	*339*	*ND*
Global Banking	***155***	*249*	*ND*
Commercial banking	***521***	*715*	*ND*
Wealth and Personal banking	***1,380***	*1,419*	*ND*
Corporate Centre	***10***	*9*	*ND*
Global Functions and Others	***966***	*1,045*	*ND*
% Men	***44.1***	*44.3*	*44.5*
2 – Hires and dismissals (FTE)			
Recruitments (FTE) HSBC Continental Europe	**459**	426	957
% recruitments	**6.2%**	5.0%	10.8%
Dismissals (FTE) HSBC Continental Europe	**84**	99	105
% dismissals	**1.1%**	1.2%	1.2%
3 – Equality of treatment			
% of women in management HSBC Continental Europe (FTE)	**30.3%**	29.3%	29.7%
Number of persons with disabilities HSBC Continental Europe in France	**426**	425	439
% employees with disabilities HSBC Continental Europe in France	**5.7%**	5.3%	5.2%
% of employees less than 30 years old HSBC Continental Europe (FTE)	**8.9%**	9.6%	10.8%
% of employees over 50 years old HSBC Continental Europe (FTE)	**31.7%**	30.4%	28.8%

1 *As a result of the evolving organisation of the business, the table covers the entire scope of HSBC Continental Europe for the first time this year. The figures were previously reported for HSBC in Frances year and comparative data for 2019 is not currently available for all figures reported.*

Governance policies adjusting to social changes

Risks relating to laws, regulations, standards, rules, internal policies and best practice in aligning with our stakeholders' expectations, protecting the interests of our customers, tackling money laundering and the financing of terrorism, the respect of international sanctions and tackling corruption are subject to heightened monitoring through the use of a system of appropriate checks and the implementation of measures to evaluate these risks.

Risk of non-alignment with our stakeholders' expectations (theme 8)

HSBC listens to its stakeholders in a number of different ways to ensure that we understand and meet their expectations. We use the information they provide us to identify the issues that are most important to them – and consequently also matter to our own business. Building strong relationships with our stakeholders helps enable us to deliver our strategy in line with our long-term values, and operate the business in a sustainable way. Our size and global reach mean our actions can have a significant impact. We are committed to doing business responsibly and thinking for the long term. The key stakeholders identified by the Board are our customers, employees, investors, communities, suppliers, and regulators and governments.

At a regional level, we have also implemented a holistic approach to ensure that we listen and get feedback from these different stakeholders and an understanding of their interests and priorities when we take material decisions.

HSBC Continental Europe organised a first roundtable dialogue with external stakeholders in France in 2011 and has kept a regular dialogue through meetings every two years. In 2018, HSBC Continental Europe set up an external stakeholder committee with the aim to organise an annual meeting of this committee in order to assess our progress in the transformation towards Net zero and natural capital preservation.
Due to the Covid-19 crisis outbreak, the 2019 meeting actually took place in January 2020. This panel was last invited in October 2020 when we shared the Group's climate commitment towards Net Zero by 2050 for our financed emissions and investments.

With HSBC Continental Europe transforming its business model towards a wholesale bank and the integration of 10 branches, we are currently reviewing the composition of the external stakeholders' committee. Changes in the top management of the bank as well as the Covid-19 crisis have delayed the process during 2021.

Customers:

Our business is centred around our customers. The greater the understanding we have of their needs and the challenges they face, the better we can support them to achieve their financial aims. Examples of HSBC Continental Europe engaging with customers in 2021 included:

- customer survey feedback, including the results of our 2021 net promoter scores in retail banking and commercial banking in France;
- customer insights developed through customer interactions with senior management and relationship managers and filed in our client relationship management systems.

For more detailed information please see 'Managing the risk of customer disappointment: listening to our customers to meet their needs' on page 64.

Employees:

We want our organisation to continue to be a positive place to work and build careers. The success of the Group's strategy is dependent upon having motivated people with the expertise and skills required to help deliver our strategy. Examples of HSBC Continental Europe's engagement with our employees in 2021 included:

- a specific action plan to protect our people during the Covid-19 crisis;

- An on-going support plan as HSBC Continental Europe continues its transformation towards the wholesale business model;
- 'Snapshot' survey updates on employee sentiment and well-being, which were published twice during the year;
- additional employee opinion surveys to assess employee physical and mental well-being;

For more detailed information please see 'An inclusive and responsible HR strategy' on page 67.

Investors:

We seek to understand investor needs through ongoing dialogue. Examples of HSBC Continental Europe engaging with investors in 2021 included:

- regular meetings with rating agencies
- reports from institutional investor meetings attended by Directors; and
- regular updates from Investor Relations, including a weekly update on market activity and sentiment.

Communities:

We play an important role in supporting the communities in which we operate through customers we serve and corporate social responsibility activities. Examples of HSBC Continental Europe 's engagement with communities in 2021 included:

- Supporting more financially fragile communities through the pandemic with the Cresus Foundation;
- Supporting sustainable entrepreneurship through different programmes *(Les Entrépides* in partnership with *Fondation Entreprendre*, Green Skills Innovation challenge of Ashoka).
- Providing our people with some opportunities to volunteer in several community investment projects related to employability, and environment.

Suppliers:

Our suppliers provide the Group with vital resources, expertise and services to help us operate our business effectively. We work with our suppliers to ensure mutually beneficial relationships on a global and local level. In some cases, our suppliers will also be our customers.

Examples of HSBC Continental Europe 's engagement with suppliers in 2021 included:

- reports which included updates on third-party suppliers and operational resilience; and
- E-signature for all our procurement contracts in place since 2018 and E-invoices increasingly implemented by our vendors (69 per cent of e-invoice in 2021 vs 47 per cent in 2020) which has contributed to reduced paper use and faster processing.

Regulators & Governments:

Constructive dialogue and relations with the relevant authorities in the markets we operate are critical to support the effective functioning of economies globally. Examples of HSBC Continental Europe's engagement with regulators and governments in 2021 included:

- Regular engagement with the Joint Supervisory team (JST) composed from both the European Central Bank (ECB) and Autorité de Contrôle Prudentiel (ACPR);
- Regular engagement with several governmental entities through working groups, multi stakeholder initiatives and one-on-one meetings.

We know that what is important to our stakeholders evolves over time and we will continue to assess our approach to ensure we remain relevant in what we measure and publicly report.

Performance indicator for risk of non-alignment with our stakeholders' expectations (theme 8)

	2021	2020	2019
External stakeholders committee meeting	–	2	–

Risk related to unfair business practices and failure to protect the interests of customers (theme 9)

For HSBC, best practice consists of taking actions and making decisions that are fair for its customers and do not disrupt the proper and transparent operation of financial markets. These principles are essential to ensure long-term success and provide the best service to our customers. To achieve this, the Bank has clear directives, frameworks and governance principles covering its behaviour, the design of products and services, training and remuneration of employees, interactions with customers and internal communication. The Conduct framework is the central reference to guide colleagues to understand the consequences of good or poor decisions for customers and other stakeholders.In 2021, the refreshed Conduct Approach has been aligned to one of the refreshed values "We Take Responsibility", and now structured around five outcomes to be achieved for customers and markets in a simplest and understandable approach
Employees did not participate in training on this topic in 2021 since the 2021 Group mandatory conduct training was not launched until January 2022. It will run through the first quarter of 2022.

Performance indicator for risk related to unfair business practices and failure to protect the interests of customers (theme 9)

	2021	2020	2019
Share of staff members trained on theme 9 through Global Mandatory Training	**Training postponed to first quarter of 2022**	98%	98%

For more details, see Risks, Regulatory Compliance Risk Management page 160.

Risk of money laundering and financial crime: preventing the risk (theme 10)

HSBC has a responsibility to help protect the integrity of the global financial system. In order to fulfil this responsibility, we have made, and continue to make, significant investments in our ability to detect, deter, and prevent financial crime. Various programs have been implemented and others are under way to improve systems and day-to-day practices for managing risks relating to money laundering, tax fraud, compliance with sanctions and corruption. Within HSBC Continental Europe, every month, all transactions are analysed to detect signs of money laundering, tax avoidance and failure to comply with sanctions. In addition, names are screened on an ongoing basis using various surveillance lists. The Bank has cut links with customers, products, and countries where we deemed the financial crime risk too high to manage. The HSBC Group is also working with governments and other banks to advance its collective interests in this area. These steps are enabling us to reduce the risk of financial crime much more effectively.

In order to ensure the effectiveness of our policies, an annual training course has been taken by over 98 per cent of HSBC Continental Europe employees, which is in line with the bank's Risk Appetite of having at least a 98 per cent mandatory training completion rate (the Risk Tolerance is set at 97 per cent).

Performance indicator for risk of money laundering and financial crime (theme 10)

	2021	2020	2019
Share of staff members trained on theme	**98%**	98%	98%

For more details, see Risks, Regulatory Compliance Risk Management page 160.

More information about HSBC financial crime policies at https://www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime/financial-crime-risk-policies

Risk of corruption*: preventing the risk (theme 11)

HSBC is committed to high standards of ethical behaviour and operates a zero tolerance approach to bribery and corruption. We consider such activity to be unethical and contrary to good corporate governance and require compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which we operate. We have a Global Anti-Bribery and Corruption Policy which gives practical effect to global initiatives such as the Organisation of Economic Cooperation and Development ('OECD') Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Principle 10 of the United Nations Global Compact.

In regard to combating corruption, HSBC Continental Europe is committed to complying with France's Sapin 2 Law and to adopting a zero-tolerance attitude to corruption.

In 2018, the French Anti-Corruption Agency (*Agence Française Anticorruption – 'AFA'*), established under the framework of the Sapin 2 Law, visited HSBC Continental Europe with the objective of assessing compliance of the Bank with the requirements of Article 17 of the Law to implement a mandatory framework composed of 8 pillars to detect and prevent bribery, corruption and the influencing of peddling.

The *AFA* issued its report in 2019, highlighting certain areas of concern. As a result, the Bank defined an *AFA* remediation programme which commenced in 2019 for France and 2020 for the Bank's branches. The programme applied to all lines of business and functions of HSBC in France and HSBC Continental Europe's branches with the objective to strengthen the HSBC Continental Europe's anti-bribery and corruption (AB&C) framework, aligned with the requirements established by the Law. The programme listed many workstreams, such as the enhancement of the HSBC Continental Europe's corruption risk mapping, the identification and deployment of accounting controls to prevent and detect bribery and corruption, the implementation of AB&C Customer and Third Party Due Diligences, the delivery of trainings for employees most exposed to the risks of bribery and corruption, the update of local Policy and procedures or the publication of specific Codes of conduct.
AFA made a further visit in 2021 to assess the adequacy and progress of the remediation of concerns issued in the 2019 report. The report of this visit, issued in November 2021, concluded that no breaches remain and that the inspection is now considered closed.

Performance indicator for risk of corruption (theme 11)

	2021	2020	2019
Share of employees trained on this theme	**98%**	98%	98%

For more details, see Risks Financial Crime Risk Management, page 93.

More information about HSBC anti-bribery and corruption policies at https://www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime/financial-crime-risk-policies

Risk relating to tax evasion*: preventing the risk (theme 12)

HSBC Continental Europe is committed to acting with integrity and conducting our global activities in accordance with all applicable laws and regulations relating to financial crime risks. The Bank's Global Anti-Tax Evasion Facilitation Policy sets out the key principles and minimum control requirements to apply a consistent and standardised approach to both managing the risk of customer tax evasion and facilitating or failing to prevent the facilitation of tax evasion. The Bank's Risk Management Framework ('RMF') sets out the responsibilities of employees, depending on whether they are Risk Owners, Control Owners, Risk Stewards, or other, for managing risk, including tax evasion risk. The RMF makes it clear that there must be a clear segregation between risk ownership, i.e. First Line of Defence, risk oversight and stewardship, and independent assurance to help support effective identification, assessment, management, and reporting of risks.

The material tax evasion risks that the Bank faces are:

- Customer tax evasion – the risk that the Bank's products or services are associated with customer tax evasion and the risk that employees facilitate customer tax evasion;
- Facilitation by third party Associated Persons ('APs') – The risk that third party APs (excluding employees) facilitate tax evasion while acting for or on behalf of the Bank;
- Product risk – The risk that the Bank's products or services are designed, or could be seen as designed, to facilitate customer tax evasion;
- Payments to employees – The risk that the Bank (or the Bank acting through its third party APs) assists in structuring remuneration, allowances, benefits or business expenses in a way which facilitates evasion of tax by the employee;
- Payments to third parties – The risk that the Bank (or the Bank acting through its third party APs) assists in structuring payments to third parties for products or services in a way which facilitates the third party (including non-APs) to evade tax. The scope includes contractors, personal service companies, and 'umbrella' companies;
- Strategic transactions including acquisitions or disposals of shares, securities or partnership interests by HSBC Group entities – The risk that employees or other APs appointed by the Bank assist in structuring a transaction in a way which facilitates tax evasion by a counterparty.

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

Key controls to mitigate these risks include undertaking due diligence on customers, third parties, new or materially amended products, and strategic transactions to identify and assess such risks, contractual clauses in third party contracts, controls within the accounts payable process, global employee training which is supplemented with local training as necessary, and whistleblowing arrangements. Furthermore, the Bank maintains a tax evasion dashboard to monitor its performance in managing this risk. This dashboard includes metrics on a range of key control indicators and key risk indicators relating to tax evasion and is monitored monthly.

Performance indicator for risk of tax evasion (theme 12)

	2021	2020	2019
Share of staff members trained on theme	**98%**	98%	98%

For more details, see Risks, page 163.

More information about HSBC anti-bribery and corruption policies at https://www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime/financial-crime-risk-policies

Risk in the areas of cybersecurity and IT attacks: preventing the risk (theme 13)

HSBC Continental Europe, in common with other organisations, is subject to a growing number of increasingly sophisticated cyber-attacks that can in some instances affect its operations, including the availability of digital facilities for customers.

The Bank's IT security system is crucial for the proper functioning of its banking services, the protection of its customers and of the HSBC brand. With the aim of maintaining it at its best possible level, HSBC Continental Europe continues to strengthen its technical resources, its monitoring systems and its governance to prevent and withstand the growing threat from cyber-attacks.

The cyber threat is a top priority for the management team and is the subject of regular communication and discussion in order to ensure the appropriate visibility, governance and support for our cyber-security programme. HSBC Continental Europe had a moderate cyber-security incident in March 2021 related to a third party ransomware attack and as a result fell short of meeting the Bank's objective to prevent all significant cyber-security incidents.

Performance indicator for risks in cybersecurity and IT attacks (theme 13)

	2021	2020	2019
Number of significant security incidents over last 12 months	**1**	—	—

For more details, see Security Risks, page 165.

Risk in terms of non-compliance with Human Rights: preventing the risk (theme 14)

HSBC's commitment to respecting human rights, principally as they apply to our employees, our suppliers, those in whom we invest and through our lending, is set out in our 2022 Statement on Human Rights. This statement, along with our ESG Updates and our statements under the UK's Modern Slavery Act ('MSA'), which include further information, is available on www.hsbc.com.

HSBC also has an ethical and environmental code of conduct that the Bank imposes on its suppliers and which takes into account modern slavery legislation and human rights.

HSBC Continental Europe is fully aligned with these Group commitments and policies. Thus, since March 2017, as part of the new contracts process and the renewal process of the contracts, suppliers are systematically asked to sign the code of ethical and environmental conduct established by the Group. At the end of December 2021, 72 per cent of the suppliers concerned had responded positively. We are aware that this falls short of our target of a supplier return rate close to 100 per cent, and is also a significant decrease compared to the previous year when 98 per cent of suppliers signed the Code of Conduct. This is partly driven by internal reorganisations as part of our transformation which has slowed the close monitoring of the supplier Code of Conduct signature process. In addition, during 2021 we have heavily solicited our suppliers for many local or regional operational or regulatory remediation and this has resulted in an increase in our demands on suppliers.

HSBC Continental Europe operates a vigilance plan to meet the requirements of France's new Duty of Care act. Given the legislative and regulatory framework, the scope of its businesses and the procedures in force within the HSBC Group, risks relating to a failure to respect human rights are not material for HSBC Continental Europe.

For more details on the 'Duty of Care' act, see page 84.

HSBC Confidential Internal whistleblowing system

HSBC strives to create a working environment in which employees feel free to share their concerns. Aware that certain circumstances require special discretion, it simplified its whistleblowing system in 2015, detailed in its duty of care plan on page 85.

Arrangements in place within HSBC Continental Europe in France and figures

In accordance with Law N° 2016-1691 of December 9, 2016 relating to transparency, the fight against corruption and the modernisation of economic life, this solution allows employees to report, as soon as the usual channels for raising concerns are unavailable or inappropriate, without fear of retaliation, concerns relating to the following matters:

- a crime or an offense (e.g. corruption, fraud, embezzlement, harassment, discrimination ...), a serious and manifest violation of an international standard, law or settlement or serious violation of human rights and fundamental freedoms, human health and safety and the environment,
- events presenting a threat or serious prejudice to the general interest or any situation likely to generate a significant financial or reputational risk for the bank.

HSBC Confidential in France is placed under the supervision of the Audit Committee. Investigations are conducted, in a confidential, in-depth and independent manner by investigators from different departments, mainly Compliance and Human Resources. Controls are in place relating to maintaining confidentiality and to protect whistleblowers from the risk of retaliation. Periodic communication and awareness initiatives for employees are intended to encourage 'Speak-up culture' within HSBC.

15 alerts were received and accepted into the HSBC Confidential channel in France in 2021, down 53 per cent compared to 2020. The main theme emerging from the admitted alerts related to human behaviour in the work environment.

Arrangements in place in the HSBC Continental Europe branches and figures

Alerts sent by employees in HSBC Continental Europe branches are received and fully processed by the Group (with the exception of the Polish branch which receives its alerts locally as France). The Whistleblowing oversight team in France within HSBC Continental Europe Compliance monitors activities relating to the whistleblowing arrangements in HSBC Continental Europe branches.

In HSBC Continental Europe branches, four alerts were received in 2021. These alerts primarily related to poor human behaviour in the work environment.

For more details on the 'Duty of Care' act, see page 84.

Performance indicator for risk of non-compliance with Human Rights (theme 14)

	2021	2020	2019
Share of suppliers who signed the Code of Conduct in the renewal process	72%	98%	97%

Methodological details on corporate social and environmental information

Scope of reporting

On 1 December 2020, HSBC France became HSBC Continental Europe.

For 2021 financial year, the scope of the Extra Financial Performance declaration is based on a geographic scope identical to that for 2020.

Within HSBC Continental Europe, the workforce in France represented 86 per cent of the total workforce as at 31 December 2021, the rest of the workforce being shared between the 10 other markets. We have chosen to carry out the verification work in France.

The work done by PwC in relation to the fairness review therefore looked at a scope identical to that used for 2020.

The scope of each indicator may vary depending on the availability of data or type of indicator.

Workforce-related indicators concern HSBC in France (excluding HSBC Bank PLC Paris Branch and HSBC Global Services (UK) LTD): HSBC Continental Europe, HSBC Assurances Vie (France), HSBC Global Asset Management (France).

Environmental indicators concern HSBC Continental Europe in France.

Change in scope

For environmental indicators, entities consolidated or de-consolidated during the year are accounted for in the data reported on the date they enter the Group and until the date they exit.

Reporting period

The annual reporting period is the calendar year (from 1 January to 31 December). For environmental indicators, the 2021 data are based on figures covering the reporting period from 1 October 2020 to 30 September 2021.

Reporting tools and processes

For environmental indicators

The reporting tool is Metrix, developed by Enablon, which is used by the HSBC Group. Its main functions include the collection of data on energy (kWh), greenhouse gas emissions, water (m^3), paper (tonnes), waste (tonnes), km travelled and other data: comments, operational surface areas (m^2), number of sites, workforce ('FTE'), initiatives, dual validation at country level, then at regional and global levels and, finally, dashboards.

For social indicators

The information that appears in reporting documents is the result of queries from People insight.

Details on the definition of certain indicators

Environmental indicators

Greenhouse gas emissions result from the consumption of electricity, gas, fuel oil, urban heating and air conditioning. Transport-related greenhouse gas emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the group car fleet.

Energy consumption is partly estimated as invoicing and reporting periods do not overlap precisely.

Social indicators

The total workforce includes employees under permanent contracts (including impatriates but excluding expatriates) and under fixed-term contracts (replacement and additional fixed-term contracts) depending on their activity rate (FTE). Expatriation contracts, work-study contracts, professional training contracts, trainees, temporary workers, suspended contracts, employees on early retirement, and employees on permanent disability are excluded. Holiday auxiliary staff are excluded. Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. An employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire.

EU Taxonomy economic performance indicators[1]

Climate change mitigation and climate change adaptation objectives

In order to meet the European Union's climate and energy targets for 2030, the European Commission ('EC') has set out the EU Taxonomy classification system, establishing a list of environmentally sustainable economic activities. The EU Taxonomy provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In 2021, the EC adopted the Delegated Act supplementing Article 8 of the Taxonomy Regulation ('the Disclosures Delegated Act')[2]. Under these regulations, HSBC Continental Europe is therefore required to provide information to investors about the environmental performance of our assets and economic activities.

In this first year of disclosure, information is provided on our counterparty exposures toward Taxonomy 'eligible' economic activities. This helps to prepare for the second phase of disclosures related to Taxonomy-alignment of economic activities (i.e. disclosure of the key performance indicators) from 1 January 2024 when Taxonomy 'eligible' economic activities will be assessed to determine whether they are environmentally sustainable (i.e. Taxonomy 'aligned') against technical criteria.

The table presented below is based on the methodology and content specified in the Disclosures Delegated Act as at the reporting date.

EU Taxonomy

At 31 Dec 2021	Mandatory as a proportion of total assets	Voluntary as a proportion of total assets
Exposures toward Taxonomy relevant sectors (Taxonomy eligible)	**11 %**	13 %
Exposures toward Taxonomy non-relevant sectors (Taxonomy non-eligible)	**4 %**	4 %
Exposures to counterparties not subject to NFRD[3] disclosure obligations	**23 %**	21 %
Exposures to central governments, central banks, supranational issuers and derivatives	**42 %**	42 %
Trading portfolio and on-demand interbank loans	**8 %**	8 %
Other assets	**12 %**	12 %
Total assets	**100 %**	**100 %**

Scope of consolidation

The ratios in the above table represent exposures and balances as a proportion of total assets for the principal operating entity within HSBC Continental Europe's prudential scope of consolidation as at 31 December 2021. On this basis our subsidiaries engaged in insurance activities are excluded from the prudential consolidation.

Assets in scope

The calculation of the ratios for Taxonomy-eligible economic activities and Taxonomy non-eligible activities include on-balance exposures covering loans and advances, debt securities and equity instruments not held for trading. This includes exposures to undertakings such as large EU banks, asset managers, insurance companies and issuers that are subject to Non-Financial Reporting[4] disclosure obligation.

Other assets, which principally include cash, tangible and intangible assets, are excluded from the Taxonomy framework and therefore cannot be assessed for Taxonomy eligibility. On this basis, these assets are excluded from the eligibility assessment. However, other assets are included in the total assets used in the denominator for the calculation of the ratios.

Taxonomy-eligible economic activities

Taxonomy-eligible economic activities are those activities which can be assessed in future disclosures as either environmentally sustainable or not.

Eligibility related disclosures shall be based on actual information provided by the financial or non-financial undertakings.

The classification of environmentally sustainable is based on criteria laid out in the Taxonomy Regulation. An eligible economic activity is defined in the Delegated Acts and in some instances corresponds to one or more specific Nomenclature of Economic Activities ('NACE') code. The assessment of Taxonomy eligibility for mandatory disclosures is made using the specific description of the activity provided in the Delegated Acts.

As a result, among mandatory information, the total exposures to Taxonomy eligible economic activities ratio within mandatory disclosures is limited to exposures to green lending, green bonds, and property-related lending.

Taxonomy non-eligible economic activities

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

Included in Taxonomy non-eligible are those assets in scope that cannot be assessed for Taxonomy eligibility, either due to activities not covered by the Taxonomy framework, limited data availability from our counterparties or lack of required information.

Total exposures to undertakings not subject to NFRD

Exposures to undertakings that are not obliged to publish Non-Financial Reporting[4] information have been excluded from the assessment of Taxonomy-eligible economic activities. The total of these exposures as a proportion of total assets has been disclosed as a separate line item in the table.

Data limitations

HSBC Continental Europe relies on a number of data sources to determine Taxonomy eligible and non-eligible exposures and exposures not subject to NFRD. Availability of data and improvements in data quality over time, as firms adopt the Taxonomy requirements for their own disclosures, could lead to differences in the data reported in future years as compared to the current year.

HSBC Continental Europe will continue to engage with customers, market data providers and standard setters to improve the quality and completeness of our Taxonomy data as we develop our capabilities to assess the Taxonomy alignment of our portfolios in preparation for future Taxonomy reporting requirements from 1 January 2024.

In determining the methodology for identifying Taxonomy-eligible and non-eligible exposures and exposures not subject to NFRD it has been necessary to make some judgements, taking into account data availability. Methodologies will develop over time to align with changes in market practice and regulation. In particular, detailed below are key judgments and assumptions made:

- Counterparties which are subject to NFRD are large public interest undertakings with more than an average of 500 employees during the financial year and incorporated within the European Union. Due to data limitations, it has not been possible to assess all the criteria required to determine the NFRD status of an individual counterparty. Instead, reliance has been placed upon a simplification using the available data, as well as a sample-based review of the largest counterparties by exposure. The counterparty data considered in making an assessment included, where available: country of incorporation, customer group by global business segment, NACE code, turnover, and number of employees.
- Eligibility ratios have been reported in a combined manner for the two Taxonomy objectives adopted as of 1 January 2022: climate change mitigation and climate change adaptation.

Business strategy

In order to prepare for incorporating Taxonomy into business strategy and engagement with clients for HSBC Continental Europe, training of key employees has commenced with a mini training series dedicated to the EU Taxonomy aimed at Relationship Managers in 2021.

Additional voluntary disclosure

Estimates and proxies are not allowed to be used for the mandatory reporting under Article 8 of the Taxonomy Regulation. We have therefore included additional disclosures on a voluntary basis. The basis of preparation, methodology and explanation supporting our voluntary disclosures is set out below.

Taxonomy-eligible economic activities

The Disclosures Delegated Act entered into force from 1 January 2022 based on 31 December 2021 data for both financial and non-financial undertakings.

Since this is the first year of reporting under the EU Taxonomy, financial and non-financial undertakings have not yet reported on their taxonomy eligibility related disclosures. As a result, to determine the eligibility of exposures for the voluntary disclosures, we have relied on the NACE code of the principal activity of the immediate counterparty, except for certain types of lending and investing where the specific use of proceeds is known and relate to eligible activities or do not need to rely on data from the counterparty.

Where we have relied on the NACE code of the principal activity to determine the counterparty's eligibility, we consider this to be an estimate and included these exposures in the additional voluntary disclosures. In addition, loans collateralised by commercial property to undertakings not subject to NFRD have been included on a voluntary basis as taxonomy eligible.

Exposures to central governments, central banks, supranational issuers and derivatives as well as Trading portfolio and On-demand interbank loans have been included in voluntary disclosures on the same basis and methodology as the mandatory disclosures. Other retail exposures and other assets are included in the same way as mandatory disclosures.

(1) Taxonomy Regulation EU 2020/852.

(2) Commission Delegated Regulation (EU) 2021/2178.

(3) Non-Financial Reporting Directive (NFRD) – Directive 2013/34/EU.

(4) NFRD as per Article 19a or Article 29a of Directive 2013/34/EU.

Report by one of the Statutory Auditors, appointed as an independent third party, on the verification of the consolidated non-financial information statement

Year ended on the 31 December 2021

This is a free translation into English of the Statutory Auditor's report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

HSBC Continental Europe

38, avenue Kléber
75116 Paris

In our capacity as Statutory Auditor of HSBC Continental Europe (hereinafter the "entity"), appointed as an independent third party and accredited by Cofrac (Cofrac Inspection Accreditation n°3-1060, whose scope is available at www.cofrac.fr), we conducted our work in order to provide a report expressing a limited assurance conclusion on the historical information (observed and extrapolated) of the consolidated non-financial information statement (hereinafter respectively the "Information" and the "Statement"), prepared in accordance with the Entity's procedures (hereinafter the "Guidelines"), for year ended on the 31st of December 2021, included in the management report pursuant to the legal and regulatory provisions of articles L. 225 102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code *(Code de commerce)*.

Conclusion

Based on the procedures performed, as described in the « Nature and scope of our work » section, and the elements that we have collected, nothing has come to our attention that causes us to believe that the consolidated non-financial information statement is not compliant with the applicable regulatory provisions and that the Information, taken as a whole, are not presented fairly in accordance with the Guidelines.

Preparation of the non-financial performance statement

The absence of a generally accepted and commonly used framework or established practices on which to evaluate and measure the Information permits the use of different, but acceptable, measurement techniques that may affect comparability between entities and through time.

Consequently, the Information needs to be read and understood with reference to the Guidelines, significant elements of which are available upon request from the entity's headquarters.

Inherent Limitations in Preparing the Information

The Information may be subject to inherent uncertainty because of incomplete scientific and economic knowledge and due to the quality of the external data used. Certain Information are sensitive to the methodological choices, assumptions and/or estimates used to prepare the Information presented in the Statement.

The entity's responsibility

The Board of Directors is responsible for

- selecting or establishing suitable criteria for preparing the Information;
- the preparation of the Statement in accordance with the legal and regulatory provisions, including a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented considering those risks and the outcomes of those policies, including key performance indicators and the information required by Article 8 of Regulation (EU) 2020/852 (green taxonomy);
- designing, implementing and maintaining internal control over information relevant to the preparation of the Information that is free from material misstatement, whether due to fraud or error.

The Statement has been prepared in accordance with the entity's Guidelines as mentioned above.

Responsibility of the Statutory Auditor, appointed as an independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the provisions of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225-105 I, 3 and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

As we are engaged to form an independent conclusion on the Information as prepared by management, we are not permitted to be involved in the preparation of the Information as doing so may compromise our independence.

It is not our responsibility to comment on:

- the entity's compliance with other applicable legal and regulatory provisions (in particular the information required by Article 8 of Regulation (EU) 2020/852 (green taxonomy), the French duty of care law and anti-corruption and tax evasion legislation);
- the fairness of the information required by Article 8 of Regulation (EU) 2020/852 (green taxonomy);
- the compliance of products and services with the applicable regulations.

Regulatory provisions and professional standards applicable

The work described below was performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code and with the professional guidance of the French Institute of Statutory Auditors ("CNCC") applicable to such engagements, as well as with ISAE 3000 (Revised) – Assurance Engagements other than Audits or Reviews of Historical Financial Information.

Independence and quality control

Our independence is defined by the provisions of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of statutory auditors. In addition, we have implemented a system of quality control including documented policies and procedures to ensure the compliance with the ethical requirements, French professional guidance and applicable legal and regulatory requirements.

Means and resources

Our work was carried out by a team of 5 people between January 2022 and February 2022 and took a total of 5 weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted 18 interviews with people responsible for preparing the Statement, representing among others strategic, sustainable development, human resources, learning, finance, asset management, logistic, marketing and customer satisfaction departments.

Nature and scope of our work

We planned and performed our work considering the risk of material misstatement of the Information.

We consider that the procedures we performed were based on our professional judgment and allowed us to provide a limited level of assurance conclusion:

- we obtained an understanding of all the consolidated entities' activities, the description of the social and environmental risks associated with their activities;
- we assessed the suitability of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 225-102-1 III, as well as information regarding compliance with human rights and anti-corruption and tax evasion legislation;
- we verified that the Statement presents information set out in article L. 225-105-1 II where relevant to the principal risks and includes an explanation for the absence of the information required under article L. 225-102-1 III, 2;
- we verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships and products or services, as well as their policies, measures and the outcomes, including key performance indicators related to the principal risks;
- we referred to documentary sources and conducted interviews to:
  - assessed the process used to identify and confirm the principal risks and the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented, and
  - corroborate the qualitative information (measures and outcomes) that we considered to be the most important presented in the appendix. Our work was performed at the consolidation entity level;
- we verified that the Statement covers the scope of consolidation, i.e., all the companies included in the scope of consolidation in accordance with article L. 233-16, within the limitations set out in the Statement;
- we asked what internal control and risk management procedures the entity has put in place and assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative outcomes that we considered to be the most important presented in the appendix, we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data;
  - substantive tests, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out at the consolidating entity and covers between 90 per cent and 100% of the consolidated data selected for these tests;
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

The procedures performed in a limited assurance engagement are less extensive than those required for a reasonable assurance engagement performed in accordance with the professional guidance of the French Institute of Statutory Auditors ("CNCC"); a higher level of assurance would have required us to carry out more extensive procedures.

Neuilly-sur-Seine, 23 of February of 2022

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Agnès Hussherr	Pascal Baranger
Partner	Sustainable Development Director

Appendix: List of the information we considered most important

Key performance indicators and other quantitative results:

- Cumulative contribution to Group's sustainable finance 2030 objective;
- Exposure to coal;
- Evolution of net new money in responsible investment funds year on year;
- Amount of the green bond issue for Bpifrance;
- Greenhouse gas emissions per employee;
- Evolution of greenhouse gas emissions per employee year on year;
- Greenhouse gas emissions per employee from transport;
- Waste production in 2021;
- Commercial banking customer overall satisfaction rating;
- Share of commercial banking customer complaints resolved within 7 business days;
- NPS for Commercial Banking;
- NPS for remote access channels;
- Business Continuity Lifecycle controls assessed as effective and compliant;
- Take-up rates for development programmes open to all on a voluntary basis;
- Promoted employees;
- Employees invited to the Explore programme in France;
- Attrition of talent;
- Recruitment of permanent staff by gender;
- Share of women in senior executive positions;
- Reported employment rate of people with disabilities;
- External stakeholders committee meeting;
- Share of staff members trained on theme 9 through Global Mandatory Training;
- Staff trained in financial crime, money laundering, corruption and tax evasion;
- Number of significant security incidents over last 12 months;
- Share of suppliers who signed the Code of Conduct in the renewal process;
- Number of alerts received;
- Evolution of the number of alerts received compared to 2020.

Qualitative information (actions and results):

- Launch by HSBC Asset Management of the HSBC MSCI World Climate Paris Aligned UCITS ETF;
- Collect of mobile phones from HSBC Continental Europe employees for recycling or reuse;
- Priority booking of green badged taxis via the preferred taxi booking service;
- Use of e-signature doubled for the signature of transactions;
- HSBC Annual Relationship survey in France conducted by Kantar;
- Assessment of the effectiveness and compliance of the Business Continuity Lifecycle controls;
- Establishment of a Global Major Incident Group;
- Continuation and expansion of the #resilience support and development programme;
- Continuation of the Future Skills programme;
- Continued recruitment of young people;
- Continuation of the drive to increase the recruitment and employment of people with disabilities;
- Signature of the Financi'Elles charter;
- Review of the composition of the external stakeholders' committee and meetings held;
- Refreshment of the Conduct Approach;
- Moderate cyber-security incident in March 2021;
- Main theme emerging from the admitted alerts.

France 'Duty of Care' act

Implementation of HSBC Continental Europe's Duty of Care Plan

HSBC Continental Europe has implemented a Duty of Care Plan in accordance with France's act no. 2017-399 of 27 March 2017 on the duty of care of parent companies and ordering companies.

HSBC Continental Europe's Duty of Care Plan follows the framework defined by HSBC. Commitments have been made and rules and procedures adopted at the HSBC Group level* to mitigate risks and prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment. The framework applies to all HSBC Group companies worldwide, including HSBC Continental Europe and its consolidated subsidiaries.

The Duty of Care Plan is implemented and monitored by a committee that meets twice yearly and consists of members of HSBC Continental Europe's Legal Affairs Department, Regulatory Compliance Department, Human Resources Department, Purchasing Department, Operational Risks Department and Sustainability Department and is headed by HSBC Continental Europe's Chief Risk Officer.

* *These statements and policies can be viewed on the 'ESG reporting centre' pages of the Group website. https://www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre*

Identification of risks relating to the Duty of Care

Scope of application

The Duty of Care Plan's geographical scope of application consists of HSBC Continental Europe including its international branches.

Within that geographical scope, the Duty of Care Plan covers risks relating to HSBC Continental Europe's employees and banking activities, as well as suppliers and subcontractors.

Identification and definition of risks relating to the Duty of Care

Occupational health and safety

As stated in its Health & Safety Policy* document, HSBC, as an employer, must provide a healthy, respectful working environment, as well as protecting and ensuring the physical safety of its employees at their workplace or when travelling for business purposes.

Respect for human rights

HSBC defines its approach to human rights in its 'Statement on Human Rights', which is based on various international texts including the UN's International Bill of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

As part of its approach to human rights, HSBC ensures that its employees, along with the employees of its suppliers and clients, are treated without discrimination or harassment because of their religion, social background, ethnicity, gender, age, disability, sexual orientation, marital status, pregnancy or involvement in charitable or union activities where authorised by national law, in both its professional relationships and employment practices.

HSBC is also committed to combating all forms of slavery, forced and compulsory labour, human trafficking and child labour, as stated in its Modern Slavery Act*. As regards labour standards, HSBC takes care to comply with local regulations and industry practices in terms of wages, working hours, freedom of association and the right to organise, disciplinary practices and conflict resolution procedures.

Environmental protection

HSBC prevents, mitigates and controls its material impacts on the environment and health in accordance with its Environmental Policy*. This includes complying with regulations concerning waste management, handling of hazardous materials and sourcing of raw materials. It pays particular attention to risks relating to climate change, which is defined as an urgent and potentially irreversible threat in HSBC's Statement on Climate Change*.

* *These statements and policies can be viewed on the 'ESG reporting centre' pages of the Group website. https://www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre*

Risk mapping and assessment procedures

Risks specific to the Duty of Care are mapped on the basis of the library of risks and controls used within HSBC. These risks are contained in the businesses and functions risks mappings, which state all the risks to which they are exposed and key controls to mitigate them.

The risk and control assessment 'RCA' are updated on an ongoing basis, based on the results of controls carried out by operational staff, lines of business and functions risk management teams (Chief Control Officer 'CCO'), Insurance teams, the conclusions of reports issued by periodic control or by third parties (including regulators), internal or external incidents and whenever a material change takes place (requiring a review of the current risk assessment and the related control). In addition, all business and function 'RCA' are refreshed at least annually.

In 2021, no material deficiencies related to Duty of Care have been identified by the control framework deployed within business lines and functions.

Plan to prevent risks related to suppliers and subcontractors

HSBC has had an Ethical and Environmental Code of Conduct for Suppliers of Goods and Services ('the code of conduct') in place since 2005. Since March 2017, when forming new contracts or renewing existing ones, HSBC Continental Europe's suppliers are required to accept these principles by signing the code of conduct. By signing the document, the supplier confirms that it respects fundamental laws on human rights, health and safety and environmental protection. As of 31 December 2021, 72 per cent of HSBC Continental Europe's suppliers had signed the Code of Conduct.

The code of conduct is made up of four sections and suppliers are required to comply with the requirements. Sections 1 and 2 outline Economic, Environmental and Social standards respectively. Sections 3 and 4 outline the requirement to have governance and management structures in place to ensure compliance with this Code. While our businesses and functions are accountable for the suppliers they use, our Strategic Procurement Service owns the code of conduct review process.

In addition to the code of conduct process, an ESG reputational risk tool is used to identify environmental and social risk for supplier engagements with a contract value of over USD 0.5 m. The tool uses negative news screening to provide an ESG reputational risk score for the supplier. Any reputational risk assessment resulting in a high-risk score for suppliers with a contract value greater than USD 0.5 m is forwarded to the business owner with an accompanying risk report. The business owner must accept the risk in order to continue.

Our supplier management principles and our ethical code of conduct are available in our Sustainability policies.

Plan to prevent risks relating to the Bank's activities

Regarding the impact of bank financing on potential breaches of human rights and environmental protection, the sustainability risk management policy adopted by HSBC for more than 15 years provides a solid risk management framework. An annual review is carried out regarding Global Banking and Markets and Commercial Banking clients operating in sectors covered by the Group's sector policies, and all transactions in these sectors are also reviewed. HSBC's sector policies cover agricultural commodities, chemicals, defence, energy, forestry, mining and metals, World Heritage Sites and Ramsar wetlands*. HSBC regularly reviews and refines these policies, including through constructive dialogue with NGOs and action groups, alongside which it regularly addresses matters of common interest. HSBC has applied the Equator Principles since they were first developed in 2003, including the latest version ('EP3') since 2014. In addition, regarding six particularly carbon-intensive sectors (oil and gas, energy, construction, chemicals, automotive, mining and metals), HSBC has developed a method to assess the climate strategies put in place by its business clients in order to oversee the impact of its financing more effectively.

For more details, see the 'Managing the environmental risks related to banking activity' section on page 56.

Internal Whistleblowing system

HSBC strives to create a working environment in which employees feel free to share their concerns. Aware that certain circumstances require special discretion, it simplified its whistleblowing system in 2015 by creating 'HSBC Confidential'. The arrangements are open to all employees of HSBC and other stakeholders. The arrangements can be used anonymously by the whistleblower and are accessible, at any time. Enhancements to the channel in December 2020 mean the majority of concerns are now raised through an independent third party offering 24/7 hotlines and a web portal in multiple languages, including French and English. The arrangements are supervised by an independent team within the Compliance function. It can be used to report, in particular, facts or behaviour constituting a serious violation of human rights and fundamental freedoms, the health and safety of persons as well as the environment resulting from the activities of HSBC Continental Europe as well as those of their subcontractors or suppliers, in accordance with Law N° 2017-399 of 27 March 2017 relating to the duty of care of parent companies and ordering companies. Investigations are conducted confidentially, in depth and independently by investigators who are trained and made aware of the legislation / regulations applicable to whistleblowing arrangements.

Alerts received in France are fully managed in France (i.) while alerts sent by employees in HSBC Continental Europe branches (ii.) are received and fully processed by Group in accordance with the processes put in place by Group (with the exception of the Polish branch which receives its alerts locally, as France). As the French alerts and the alerts from HSBC Continental Europe branches do not follow the same process, the figures are therefore reported separately in this report.

Arrangements in place within HSBC Continental Europe in France and figures

In accordance with Law N° 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies, the whistleblowing arrangements can be used to report facts or behaviour constituting a serious violation towards human rights and fundamental freedoms, human health and safety and the environment resulting from the activities of HSBC Continental Europe as well as those of their subcontractors or suppliers.

HSBC Confidential in France is placed under the supervision of the Audit Committee. Investigations are conducted, in a confidential, in-depth and independent manner by investigators from different departments, mainly Compliance and Human Resources. Controls are in place relating to maintaining confidentiality and to protect whistleblowers from the risk of retaliation.

Periodic communication and awareness initiatives for employees are intended to encourage 'Speak-up culture' within HSBC.

15 alerts were received and accepted into the HSBC Confidential channel in France in 2021, down 53 per cent compared to 2020. The main theme emerging from the admitted alerts related to human behaviour in the work environment.

Arrangements in place in the HSBC Continental Europe branches and figures

Alerts sent by employees in HSBC Continental Europe branches are received and fully processed by the Group (with the exception of the Polish branch which receives its alerts locally as France). The Whistleblowing oversight team in France within HSBC Continental Europe Compliance monitors activities relating to the whistleblowing arrangements in the HSBC Continental Europe branches.

In HSBC Continental Europe branches, 4 alerts were received in 2021. These alerts primarily related to poor human behaviour in the work environment.

* *These statements and policies can be viewed on the 'ESG reporting centre' pages of the Group website. https://www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre*

System for monitoring measures taken

HSBC Continental Europe has adopted a process for managing inappropriate individual breaches. The process aims to identify all situations in which rules and procedures are not complied with, and to ensure that cases are treated consistently.

The breaches that HSBC Continental Europe seeks to identify include cases of money laundering – which may involve activities such as terrorist financing, human trafficking or slavery – as well as cases where the physical safety of staff members is jeopardised and cases of harassment.

To deal with such situations, each of HSBC Continental Europe's business lines and main functions hold breach committee meetings. For smaller functions and branches, ad-hoc committee meetings are held if a breach occurs. The aim of these meetings is to assess the risk level, the circumstances in which the breach occurred and the level of the breach. If appropriate, sanctions are applied; remedial action may also be taken to prevent the situation from recurring. Monitoring indicators have also been adopted.

In 2021, three breaches were dealt with in relation to the Duty of Care Act.

We investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders. They are then raised directly with the client company by the Relationship Manager and, if necessary, escalated to Senior Management both within HSBC and at the client company, up to the senior executive level. Where required, individual customer relationships are referred to and reviewed by Reputational Risk and Client Selection Committees on a case-by-case basis. These reviews may decide to restrict or end a customer relationship where it is unwilling or unable to meet HSBC's standards, including those relating to modern slavery and human trafficking.

Risk

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All Pillar 3 and regulatory documentation is available on the Internet websites www.hsbc.com and www.hsbc.fr.

Key Highlights

Principal Regulatory Ratios

	At	
	31 Dec 2021	31 Dec 2020
	%	%
Capital Ratios		
Common equity tier 1	**12.0**	12.6
Total tier 1	**13.6**	14.2
Total capital	**16.5**	17.3
Leverage Ratio	**4.2**	4.2
Liquidity Ratios		
Liquidity Coverage Ratio	**145**	143
Net Stable Funding Ratio[1]	**130**	136

1 *Computed in respect of CRR II guidelines.*

Risk-Weighted Assets – by Risk Type

	RWAs		Capital required	
	2021	2020	**2021**	2020
	€m	€m	**€m**	€m
Credit Risk	**36,019**	36,431	**2,882**	2,914
Counterparty Credit Risk	**4,435**	3,736	**355**	298
Market Risk	**3,784**	2,663	**303**	213
Operational Risk	**3,557**	3,283	**285**	263
Total Risk-Weighted Assets	**47,795**	46,113	**3,824**	3,688

Loan Impairment Charges/Impaired Loans

	At	
	31 Dec 2021	31 Dec 2020
(in million of euros/%)	**€m**	€m
Total Gross loans	**67,240**	63,827
Total Impaired loans (B)[1]	**1,293**	1,392
Impaired loans %	**1.92%**	2.18%
Total loan impairment charge at 31 December	**(33)**	(289)
Impairment allowances (A)[1]	**(652)**	(673)
Impairment ratio: A/B	**50.43%**	48.35%

1 *Including only stage 3.*

Our risk appetite

We recognise the importance of a strong risk culture, which refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate related risks, both physical and transition, and continue to include the consideration of these into how we manage and oversee risks internally and with our customers.

The following principles guide our overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

- Strong capital position, defined by regulatory and internal ratios.
- Liquidity and funding management for each Group entity on a stand-alone basis.

Operating model

- Returns generated in line with risks taken.
- Sustainable earnings and delivering consistent returns for shareholders.

Business practice

- We have zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage to the Group has not been considered and/or mitigated.
- We have no appetite for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by a member of staff or by any Group business.

Enterprise-wide application

HSBC Continental Europe's risk appetite includes consideration of financial and non financial risks and is expressed in both quantitative and qualitative terms.

The Risk Appetite Statement is approved by the HSBC Continental Europe Board following advice from the Risk Committee, and is a key component of the risk management framework.

Setting out HSBC Continental Europe's risk appetite ensures that planned business activities provide an appropriate balance of return for the risk being taken, and that a suitable level of risk for our strategy is defined. In this way, risk appetite permits the financial planning process and helps senior management of the bank to allocate capital to business activities, services and products.

The business performance against these risk appetite metrics is reviewed on a monthly basis in the Risk Management Meeting and quarterly in the Risk Committee and Board. Details of metrics that have fallen outside of the appetite/tolerance are provided, along with remediating actions. This reporting allows risks to be promptly identified and mitigated.

Risk Management

We recognise that the primary role of risk management is to protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model described on page 90.

We are focused upon implementation of our business strategy for which the active management of execution risks is essential.

We will also perform a periodic risk assessment, with regard to our current strategy, in order to identify our key employees for the safe maintenance of our operations.

We use a comprehensive risk management framework across the organisation and across all risk types, underpinned by the Group's culture and values. This framework outlines the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

The framework fosters continual monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to identifying, evaluating and managing the risks we accept and incur in our activities.

Stress testing

HSBC Continental Europe operates a comprehensive stress testing program that supports our risk management and capital planning. It includes execution of stress tests mandated by our regulators. Our stress testing is supported by dedicated teams and infrastructure, and is overseen at the most senior levels of the bank. Our stress testing program assesses our capital strength through a rigorous examination of our resilience to external shocks. It also helps us understand and mitigate risks and informs our decisions about capital levels. As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests (e.g. concentration risk stress tests on specific portfolios, market risk stress tests and capital sensitivity analysis from several risk factors).

Stress test impacts are measured on the profit and loss account, the risk-weighted assets and capital. The stress test outcomes are submitted to the HSBC Continental Europe Risk Committee and Board.

In 2021, HSBC Continental Europe performed a range of stress tests within the stress testing program, examining both capital and liquidity adequacy in line with the assessed top and emerging risks. These included an examination of the continued downside risks from the Covid-19 pandemic. The results of these stress tests were reported to senior management and to the other governance committees of the bank.

HSBC Continental Europe contributes to the HSBC Group stress testing program, including a Global Internal Stress Test and a Reverse Stress Test. Reverse stress tests require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities.

In stress testing exercises, the scenarios usually rely upon a set of macroeconomic and financial variables (e.g. GDP, consumer price index, interest and exchange rates, unemployment, stock index) projected upon a pre-determined period. Several scenarios are usually defined:

- a base scenario considered as the most likely scenario over the projected period, taking into consideration the economic and financial environments and their forward-looking evolution;
- one or several adverse scenarios describing one or several potential shocks affecting the economic and financial environments, like the materialisation of one or several risks weighting on the base scenario.

For macroeconomic stress tests, the base and adverse scenarios are usually centrally coordinated by HSBC Risk and Finance teams, and broken down into regional and country scenarios to ensure global consistency.

To ensure an appropriate coverage of the specific risks faced by HSBC Continental Europe, scenarios specific to France are also developed by HSBC Continental Europe's risk and finance teams, with the support of expert panels.

Regulatory stress tests

Stress testing is an important prudential regulatory tool to assess the resilience of the banking sector and of individual banks to adverse economic or financial developments.

The results inform the regulators and the bank senior management of the capital adequacy of individual institutions and could have a significant effect on minimum capital requirements and planned capital actions, including the payment of dividends, going forward. In 2021, HSBC Continental Europe participated in the EBA Stress Test on a standalone basis and the results were published on 31 July 2021.

As part of the HSBC Group, HSBC Continental Europe also takes part in the Bank of England's stress test program, which involves all major UK banks. In 2021 the Bank of England ran two exercises, the 'Solvency Stress Test' and an 'Exploratory Scenario' that focused on Climate Risk. HSBC Continental Europe has participated in these 2021 exercises alongside HSBC Bank plc and HSBC Group.

Risk management framework

An established risk governance framework and ownership structure ensures oversight of, and accountability for, the effective management of risk within the group. HSBC's risk management framework ('RMF') fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions.

Integral to the RMF are risk appetite, stress testing and the identification of emerging risks. The following diagram and descriptions summarise key aspects of the risk management framework, including governance, structure, our risk management tools and our culture, which together help align employee behaviour with our risk appetite.

Key components of our risk management framework

HSBC Values and risk culture		
Risk governance	Non-executive risk governance	The Board approves the Group's risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Group Risk Committee
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Group
Roles and responsibilities	Three lines of defence model	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Global Risk function helps ensure the necessary balance in risk/return decisions).
Processes and tools	Risk appetite Enterprise-wide risk management tools Active risk management: identification/assessment, monitoring, management and reporting	The HSBC Group has processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	The HSBC Group has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

Risk governance

The HSBC Continental Europe Risk Committee is aligned with the Bank approach focusing on risk governance, providing a forward-looking view of risks and their mitigation. The Risk Committee is a committee of the Board and has responsibility for oversight and advice to the Board on, amongst other things, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance. Additionally, a member of the Risk Committee attends meetings of the Remuneration Committee at which the alignment of the reward structures to risk appetite is considered.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and the Head of Compliance (including Financial Crime and Regulatory Compliance) with other business functions for risks within their respective areas of responsibility.

In addition to the Risk Committee, the HSBC Continental Europe Risk Management Meeting ('RMM'), is the overarching committee of both financial and non financial risk management.

In 2021, the executive governance structure has been simplified with the merger of Financial Crime Risk Management Meeting ('FCRMC'), in charge of overseeing Financial Crime and Sanctions risks, into HSBC Continental Europe Risks Management Meeting, enabling senior leaders to have a more focused, timely and decisive discussions around all material financial and non-financial risks.

Chaired by the Chief Risk Officer, the Risk Management Meeting gathers monthly the members of the Executive Committee in order to examine major risks faced by HSBC Continental Europe following a previously agreed agenda. HSBC Continental Europe Executive Committee members are also members of the HSBC Continental Europe Risk Management Meeting.

It reviews monthly financial and non-financial risks of businesses and functions, the ones from Digital Business Services, the evolution of action plans put in place in order to mitigate identified risks, and operational losses. The HSBC Continental Europe Risk Management Meeting reports functionally to its European equivalent in the HSBC Group: the HSBC Europe Risk Management Meeting.

This framework is completed by dedicated risk forums and working groups for specific risks in businesses and functions combining the various levels of internal control, in order to manage, monitor and control all HSBC activities within HSBC Continental Europe. Main functions acting as second line of defence hold a monthly or quarterly meeting, chaired by the function's head and attended by function's members and experts, businesses representatives, Operational & Resilience Risk representatives and for some of them the Chief Risk Officer of HSBC Continental Europe.

Responsibility for managing both financial and non financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. We maintain oversight of our risks through our various Risk Stewards, as well as the accountability held by the Chief Risk Officer.

Non financial risk includes some of the most material risks HSBC faces, such as cyberattacks, poor customer outcomes and loss of data. Actively managing non-financial risk is crucial to serving our customers effectively and having a positive impact in the social environment.

In compliance with the requirements of the French order of 3 November 2014 modified the 25 February 2021 and HSBC Group requirements, HSBC Continental Europe has established a permanent control and risk management framework detailed in the following chapters.

The control framework

In compliance with the requirements of the French Order of 3 November 2014 modified the 25 February 2021 and the HSBC Group requirements, a permanent control and risk management framework has been established in HSBC Continental Europe.

The Chief Risk Officer of HSBC Continental Europe is responsible of the permanent control within HSBC Continental Europe's perimeter.

The key responsibility for control falls to the managers of the various businesses, functions and Digital Business Services who must ensure that primary controls are conducted in a proper manner. Operational activities need to be covered by a second-level independent controls process. This framework is detailed in the part 'Risk Management Framework'. HSBC Group risk management framework is defined through the 'Three Lines of Defence' as described hereafter.

The HSBC Group risk taxonomy

Non financial (or operational) risks

The operational risk or non financial risk, is the risk of loss resulting from people, inadequate or failed internal processes, data or systems and external events, including legal risk.

HSBC Continental Europe manages its non financial risks following Risk Stewards recommendations and under the supervision of Operational & Resilience Risk function that ensures a holistic vision of non-financial risks for the bank.

Financial risks

They are defined as a risk of financial loss resulting from business activities.

HSBC Group has established standards, policies and control procedures dedicated to monitoring and management of risk linked to its activities.

All the HSBC Continental Europe's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of different types of risks.

Tools

In compliance with the French Order of 3rd November 2014, modified on the 25 February 2021, related to bank's permanent control, each entity has set up a framework to monitor its risks. Inherent and residual risks are listed in the businesses risk maps specific to each business (Commercial Banking, Global Banking, Markets and Securities Services and Wealth and Personal Banking) and functions. These maps summarise the risk assessment by business and the related controls on a risk-based approach. The update of the internal control framework and in particular the risks and controls assessments are undertaken on an ongoing basis and whenever a trigger event occurs requiring a reassessment of the risk and the related control coverage.

The risk profiles of the Businesses and most of the Functions are presented formally at least annually to the Chief Risk Officer in attendance of the concerned Risk Stewards, the Head of Operational & Resilience Risk function and Audit.

The objective of the exercise is to ensure that assessment and management of non-financial risks is consistent across Businesses and Functions in respect of HSBC risk management framework as well as European and French regulation.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model, whereby the activity a member of staff undertakes, drives which line they reside in. The model underpins our approach to risk management by clarifying respective responsibilities and clear accountabilities with segregation of roles within the three lines of defence. the approach encourages collaboration and enabling efficient coordination of risk and control activities. The three lines are summarised below:

- the first line of defence has the ultimate ownership for risks and controls, including read across assessments of identified issues, events and near misses and the delivery of good outcomes. The first line of defence is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them;
- the second line of defence provides subject matter expertise, advice, guidance as well as review and challenge of the first line activities to ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The second line of defence is independent of the risk-taking activities undertaken by the first line of defence. This line has been reinforced by Assurance teams which are dedicated to reviews based on a comprehensive understanding of specific risk types.
- the third line of defence is the Internal Audit function, which provides independent assessment to management to determine whether our risk management, governance and internal control processes are designed and operated effectively.

Risk culture

Our risk culture is reinforced by our values. It is instrumental in aligning the behaviours of individuals with our way of managing risk, which helps to ensure that our risk profile remains in line with our risk appetite.

We use clear and consistent employee communication on risk to convey strategic messages and set the tone from senior management and the Board. We also deploy mandatory training on risk and compliance topics to embed skills and understanding in order to strengthen our risk culture and reinforce the attitude to risk in the behaviour expected of employees, as described in our risk policies.

In 2021, our employees continued to deepen their knowledge and expertise on FC risks through training programmes, awareness sessions and dedicated communications. These actions are key to ensure that the first line of defence and Digital Business Services team are able to identify and understand the current challenges against financial crime and terrorism.

The Conduct framework, deployed in 2015 and updated in 2021, represents strong foundations for HSBC to deliver fair outcomes for customers and to maintain orderly and transparency on financial markets. The refreshed conduct framework was an opportunity to be aligned with the refreshed Purpose and Values defined by 'We take responsibility' to guide all stakeholders in acting appropriately in all circumstances and to recognise the individual impact from employees in relation to customers and financial markets in which we operate. Training and communications are regularly deployed to improve the staff understanding and awareness in addition of the Global Mandatory Training provided to all employees: 'Living our Values'. In addition, a conduct handbook has been implemented to improve employees understanding on the best way to take the five conduct outcomes into account in all actions and decisions. All employees from the three lines of defence have a role to play to achieve the objectives by ensuring to have a good understanding of conduct impacts, in creating an appropriate area facilitating the speak-up culture.

The risk culture is reinforced by HSBC Group's policy on performance management and remuneration with is based on annual objectives setting both financial and non financial (among which one risk objective is broken down in 5 sub-objectives applicable to all employees) that are aligned to our risk appetite, our Group' values and our global strategy, and based on annual appraisals. In addition, an internal process named '*Incentivising Compliance*' allows to reward individual or collective initiatives targeted to improve our risk management and organizes disciplinary and managerial sanctions in case of breaches on our internal rules and practices.

Risk function

The Risk function is headed by the Chief Risk Officer, which is responsible for the risk management framework of HSBC Continental Europe. This responsibility includes establishing risk policy, monitoring risk profiles, and forward-looking risk identification and management. Risk is made up of sub-functions covering all risks of our activities. Risk function is part of the second line of defence. It is independent from commercial activities.

Key developments and risk profile

Key developments in 2021

In 2021, we undertook a number of initiatives to enhance our approach to the management of risk. These included:

- The executive governance structure has been simplified with the merger of Financial Crime Risk Management Meeting into HSBC Continental Europe Risks Management Meeting, enabling senior leaders to have a more focused, timely and decisive discussions around all material financial and non-financial risks;
- Climate risk has been introduced in our Risk Management framework to consider climate-related and environmental risks as drivers of existing risk categories;
- As part of the HSBC Group Non-Financial Risk Optimization Programme launched in 2019, risk taxonomy and control library have been rationalized with a smaller number of risk types, along with a clear set of key controls to be applied for each risk, aiming to further strengthen and simplify Non-financial risk monitoring and management;
- Our Non-financial risk management has been extended by including a dedicated policy on Operational resilience management focusing on the continuity of HSBC's Important Business Services;
- We continued to focus on HSBC Third Party Risk Management Framework and Cloud framework further to the implementation of the EBA Guidelines on Outsourcing, now included in the French order of 3 November 2014 modified the 25 February 2021;
- We have completed the set-up of Risks and Controls Assessment at HSBC Continental Europe level combining France and its European branches per business/function. This approach aims to simplify risks management by consolidating risk at Legal entity level The set-up will be effective in 2022;
- Our risk management practice continues to strengthen with the implementation within the second line of defence of a local central HSBC Continental Europe permanent control team, performing independent reviews focused on Medium and Low risks and complementing existing Group/Regional Assurance teams activities. This approach will ensure a full coverage of all non-financial risks by independent controls.The monitoring plan (permanent control plan) will be ready for the end of March 2021 with a roll out in the beginning of April 2022.

Top and emerging risks

Top and emerging risks are those that may impact on the financial results, reputation or business model of the bank. If these risks were to occur, they could have a material effect on the group.

During 2021, we made certain changes in the list of our top and emerging risks, reflecting the evolution of the issues facing HSBC Continental Europe. Our current top and emerging risks, as assessed by us, are as follows:

Externally Driven

Macroeconomic and geopolitical risks

Global tensions over trade, technology and ideology are manifesting themselves in divergent regulatory standards and compliance regimes, presenting long-term strategic challenges for multinational businesses.

The Covid-19 pandemic has also heightened geopolitical tensions.

Expanding data privacy and cybersecurity laws in a number of markets could pose potential challenges to intra-group data sharing. These developments could increase financial institutions' compliance burdens in respect of cross-border transfers of personal information.

Monetary and fiscal policies in developed markets will likely remain accommodative for some time due to uncertainty over the outlook. These countries should be able to manage the higher public deficits and debts necessary to offset private sector weaknesses, given that debt servicing costs are likely to remain low for the foreseeable future. Nevertheless, renewed government restrictions in response to new waves of infections could once again put pressure on these economies. We continue to monitor the situation.

Interest rates generally increased in 2021, with volatility seen in some markets as central banks reacted to vaccine-led economic recoveries and increasing inflationary pressures. The policy outlook may be significantly affected by the emergence and spread of new Covid-19 variants. The US Federal Reserve Board began tapering its asset purchases from November 2021, and the European Central Bank is on course to end its extraordinary asset purchase programme in March 2022. We continue to monitor our risk profile closely in the context of possible further tightening in monetary policies.

The global economic recovery in 2021 eased financial difficulties for some of our customers which contributed to a reduction in ECL charges.

The relationship between the UK and the EU may come under more severe strain in 2022 over multiple disputes, most notably the Northern Ireland Protocol, with possible repercussions on the operation of the Trade and Cooperation Agreement.

We continually assess the impact of geopolitical events. Tensions between Russia and the US and a number of European states have heightened significantly following the escalation of hostilities between Russia and Ukraine. While negotiations are ongoing to seek a resolution, a continuation of or any further deterioration to the situation could have significant geopolitical implications, including economic, social and political repercussions on the group and its customers. In addition, the US, the UK and the EU have threatened a significant expansion of sanctions and trade restrictions against Russia in the event of a Russian incursion into Ukraine, and Russian countermeasures are also possible. We will continue to monitor the development of this situation and any potential implications for HSBC Continental Europe.

Mitigating actions

- We closely monitor economic developments in key markets and sectors and undertake scenario analysis. This helps enable us to take portfolio actions where necessary, including enhanced monitoring, amending our risk appetite and/or reducing limits and exposures.
- We stress test portfolios of particular concern to identify sensitivity to loss under a range of scenarios, with management actions being taken to rebalance exposures and manage risk appetite where necessary.
- We undertake regular reviews of key portfolios to help ensure that individual customer or portfolio risks are understood and our ability to manage the level of facilities offered through any downturn is appropriate.
- We continually monitor the geopolitical outlook.
- We continue to monitor geopolitical tensions involving Russia and Ukraine and any potential impacts on the group and our customers.

This risk has remained stable since 31 December 2020.

Cyber threats and unauthorised access to systems

Together with other organisations, we continue to operate in an increasingly hostile cyber threat environment, which requires ongoing investment in business and technical controls to defend against these threats.

Key threats include unauthorised access to online customer accounts, advanced malware attacks, attacks on our third-party suppliers and security vulnerabilities being exploited.

Mitigating actions

- We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. To further protect HSBC and our customers and help ensure the safe expansion of our global business lines, we strengthen our controls to reduce the likelihood and impact of advanced malware, data leakage, exposure through third parties and security vulnerabilities.
- We continue to enhance our cybersecurity capabilities, including Cloud security, identity and access management, metrics and data analytics, and third-party security reviews. An important part of our defence strategy is ensuring our colleagues remain alerted of cybersecurity issues and know how to report incidents.
- We report and review cyber risk and control effectiveness quarterly at executive and non-executive Board level. We also report across our global businesses, functions and regions to help ensure appropriate visibility and governance of the risk and mitigating actions.
- We participate globally in several industry professional bodies and working groups to share information about tactics employed by cyber-crime groups and to collaborate in fighting, detecting and preventing cyber-attacks on financial organisations.

Cyber risk remains a priority of the Board and is regularly reported to ensure appropriate visibility, governance and executive support for our ongoing cyber security programme.

This risk is stable versus 31 December 2020.

Regulatory Compliance including Conduct

The Industry continues to operate under an increasing focus of regulators on Conduct matters, such as the fair treatment of customers with specific attention paid on the protection of fragile customers and compliance with conduct rules in financial markets (including the market abuse framework).

The ACPR also indicated it was paying particular attention to digital initiatives, artificial intelligence, FinTech developments and e-activities, reminding banks that these changes should aim at the clients' interest and allow enhanced traceability and control.

The green finance and crypto-currencies have also been mentioned as emerging issues. The French law on energy transition and green finance will have to be reviewed following European initiatives, and preventing green-washing and pushing for a better harmonization of methodologies to define what green really is have been a big stake for the AMF. Regarding crypto-currencies, the French regulators are calling for a European initiative.

Mitigating actions

In line with Group initiatives and the global principles, HSBC Continental Europe has implemented the Conduct framework: all Lines of Business and functions have taken full ownership of Conduct risk, like the other risks.

Regulatory Compliance oversees and provides advice to the lines of Business in their action plans, with a focus on employee training, to address any concern or possible delay in the application of the regulatory requirements. It engages with internal and external stakeholders, including Regulators, as part of its role as Risk Stewards in achieving HSBC’s strategic priorities.

This risk has remained stable versus 31 December 2020.

Financial crime risks

HSBC has no appetite to see its products being used to transform the profits of crime and corruption into legitimate assets, to finance terrorism, transfer money to sanctioned countries or individuals or facilitate tax evasion. The risk of financial crime remains a top risk for HSBC which continuously reinforces its framework to detect and deter suspicious activities.

Mitigating actions

The framework is built to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice. These include those relating to financial crime compliance such as Anti-Money Laundering ('AML'), Counter Terrorist and Proliferation Financing, Sanctions, Anti-Bribery and Corruption ('AB&C'), Fraud Prevention and Tax Transparency with the following top priorities:

- A suitable Customer Due Diligence ('CDD') framework, which incorporates Customer Identification and Verification ('ID&V') and Know Your Customer ('KYC') principles, as well as Enhanced Due Diligence ('EDD') on customers assessed as higher risk, such as Politically Exposed Persons ('PEPs') in senior positions, their relatives and close associates;
- A good Financial Crime Risk culture, from top management to each staff member, with regular training of employees and contractors;
- A suitable Transaction Monitoring framework, designed to monitor customer transactions for the purpose of identifying suspicious activity to be reported to Tracfin;
- The suitable screening of customers, third parties and transactions globally against the sanctions lists, with the associated investigations being conducted in a reasonable timeframe;
- Ensure prohibition of business activity that HSBC believes may violate applicable sanctions laws or HSBC's Global Sanctions Policy;
- A suitable AB&C framework compliant with the HBSC Group policy and the requirements of Sapin 2 and AFA;
- Appropriate Fraud prevention systems to deter and detect all internal and external fraud attempts;
- Robust policies designed to meet the obligations related to tax fraud and tax evasion in line with art L561-15-11 of the Code Monétaire et Financier as well as FATCA, CRS and DAC6 reporting requirements.

This risk is stable versus 31 December 2020.

Environmental risks

Climate-related risks

Climate change can have an impact across HSBC's risk profile through both transition and physical channels. Transition risk can arise from the move to a low-carbon economy, through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding.

These have the potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for HSBC. Financial impacts could materialise if transition and physical risks impact the ability of borrowers to repay their loans. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our climate ambition. Climate risks increased over 2021, primarily as a result of the pace and volume of policy and regulatory changes.

Mitigating actions

- We continue to deepen our understanding of the drivers of climate risk and managing our exposure to climate risk is a priority. We appointed a permanent Climate Risk Manager within the Risk function and a HSBC Continental Europe Head of Sustainable Finance to coordinate all businesses programs and initiatives related to Climate risks. A dedicated Climate & ESG related Risks Oversight Forum will be implemented early 2022 and will be responsible for shaping and overseeing our approach and providing support in managing climate & ESG risks.
- Our climate risk programme continues to accelerate the development of our climate risk management capabilities across four key pillars – governance and risk appetite, risk management, stress testing and scenario analysis and disclosures. We are also enhancing our approach to greenwashing risk.
- We are currently engaged in the 2022 ECB Climate Risk Stress Test.
- In December, HSBC Group published its thermal coal phase-out policy committing to phase out the financing of coal-fired power and thermal coal mining in EU/OECD markets by end 2030, and globally by end 2040. The policy helps us chart the path to Net Zero and is a component of our approach towards managing the climate risk of our lending portfolio.
- We have provided tailored training sessions to senior executives and delivered a suite of climate risk training to priority populations. In 2021, we joined several industry working groups to help us progress in our approach to climate and nature-related risks, such as the Climate Commission of the French Banks Federation or the Biodiversity Working Group from Finance for Tomorrow. Our asset management business also published its biodiversity policy to publicly explain how our analysts address nature-related issues. [1].
- We continue to engage with our customers, proactively on the management of climate risks as transition risk are assessed and monitored by the client facing and the credit teams for ten high transition risk sectors.

Biodiversity

Biodiversity loss is one of the greatest systemic risks to the global economy and the health of people and the planet. The global economy and ecosystems on which we rely depend heavily on functioning ecosystems for food, fuel, fibre, climate regulation, water resources, air quality and many other essential products and services. There is an increasing regulatory and legal pressure, as well as calls from investors and other stakeholders to put a spotlight on corporates 'management of natural capital, leading companies to incur higher costs of capital when engaging in nature-degrading practices.

Nature capital-related risks which might have a direct impact on the bank are (1) operational – i.e. increased risk of default as a result of customer/counterparty facing higher business costs due to a reduction of resources/revenues directly linked to natural capital loss/degradation or reduced valuation due to increased costs for ecosystemic services which are not delivered anymore; (2) legal and regulatory – downward revaluation of assets due to high risk of litigation relating to activities that damage the natural environment or compromise livelihoods or risks of stranded assets

as a consequence of land-use change limitations, constraints on pesticide use, waste generation; (3) markets – loss of investment value due to customers' boycotts of entities producing goods that are seen to have negative environmental impacts or loss of clients due to a poor environmental performance of a fund;
(4) reputational – damaged reputation as a consequence of negative press coverage related to financing of projects with negative impact on natural capital or loss of clients as a result of their perception that the bank does not adequately account for natural capital in its decision making.

Mitigating actions

- HSBC is updating risk policies to strengthen its framework relative to environmental and biodiversity risks that may arise from the financial products and services it delivers.
- HSBC Global Asset Management (France) is also testing how to set up a biodiversity impact score in their portfolio assessment tools. Training on 'why biodiversity matters' have been conducted over the past years among CMB teams.

This risk has increased versus 31 December 2020 and is now listed in the top and emerging risks.

For further details on our approach to climate risk management, see 'Areas of special interest' on page 108.

IBOR Transition risk

Through 2021, our IBOR transition programme completed the development of IT and new near risk free replacement rate ('RFR') product capabilities, and implemented supporting operational processes whilst actively engaging with our clients to discuss options for transition of their legacy contracts. In particular, the current accounts and deposits with interest conditions in demising rates of all clients of HSBC Continental Europe, managed in local tool ARCO, have all been migrated to new rates. As a result of the progress made by the programme in implementing new processes and controls and transitioning the legacy contracts, the heightened financial and non-financial risks IBOR transition exposed HSBC to continue to reduce. The remaining risks as at 31 December 2021 are linked to: a small number of trades (loans and derivatives) referring rates demised on 31 December 2021 for which we had no agreement yet from the client to transition ('tough legacy' trades); the extension of the publication of the USD LIBOR until 30 June 2023, hence the need to continue to manage the risks related to the contracts referring the USD LIBOR; the potential demise of the EURIBOR at a future stage (not planned in a foreseeable future).

Mitigating actions

On 'tough legacy', we continue to work with our clients and investors to achieve transition to an appropriate product and interest rate at the earliest opportunity. In the interim these contracts will be valued using a legislative relief as the regulators have designated default replacement rates that will apply to contracts where the replacement rate is not specified. On USD LIBOR, the programme will pursue the work on USD LIBOR in 2022 and will leverage on the processes developed for the rates demising at end 2021. On EURIBOR, the industry has agreed in May 2021 on detailed guidelines to implement robust fallback clauses, explicitly referring the €STR as the replacement rate, in any new EURIBOR contracts. HSBC Continental Europe have written such clauses in liaison with HSBC Group Legal. Depending on the products, those clauses have been or will be implemented shortly in the contract templates.

For further details on our approach to IBOR transition, see 'Areas of special interest' on page 108.

The risk has decreased versus 31 December 2020.

Business Model risk

The banking industry in Europe is still impacted by low profitability, with some banks generating a Return on Equity ('RoE') which is below their estimated cost of equity. HSBC Continental Europe has been impacted by the prolonged period of low interest rates and intense competition impacting the ability to generate income. The current external situation has impacted the risks banks are facing, especially credit and capital risks, risks related to markets and liquidity, and people risk. Scrutiny from regulators is intense and HSBC Continental Europe has to address their requests. Furthermore, investments in IT have weighed on our cost base. The current uncertain macroeconomic outlook adds pressure on revenues, loan impairment charges, and impacts credit, capital, liquidity and people risks.

Mitigating actions

The Group strategy aims to improve returns and efficiency in Continental Europe. Given these guidelines, Global Businesses have reviewed their operating models, to build more streamlined and effective operations across Europe. Please refer to the section 'Presentation of activities and strategy' on page 4 for further details on our strategy. HSBC Continental Europe has a clear and focused strategy that is consistent with the HSBC Group's strategy: building the leading international wholesale bank in continental Europe. The programme of transformation underway in HSBC Continental Europe further supports the focus on our strengths.

The risk is stable versus 31 December 2020.

Competition risk

HSBC Continental Europe operates in a highly competitive industry that continues to undergo significant change as a result of financial regulatory reforms as well as increased public scrutiny stemming from the financial crisis and continued challenging economic conditions, further enhanced by the Covid-19 crisis. The European banking sector has proven resilient during one of the steepest drops in gross domestic product ('GDP') ever experienced. Capital levels built-up after the financial crisis have proven sufficient, while unprecedented levels of government support have blunted or deferred many of the pandemic's economic impacts.

Rationalisation has continued across the industry, with geographic footprints, customer segments, and product offerings streamlined. Consolidation has occurred in some countries, and authorities are signaling they expect more to follow. From a macroeconomic perspective, risk remains: asset bubbles are inflating, caused by excessive market liquidity, low interest rates, and a speculative activity in digital assets. The spectre of inflation has returned, something Europe's banks have not had to deal with for many years. Interest rate rises may support revenue growth, but many corporates are still suffering from weak profitability and could be exposed, along with households. By supporting the recovery from the pandemic and helping to tackle some of the big issues facing Europe's economy, the sector can gain a strong sense of purpose, increase profits, and ensure its ongoing relevance. The alternative is being gradually sidelined, pushed into a diminished role by a combination of public policy measures and new ways of delivering payments and credit.

Given that industry growth is expected to be low, improved returns will need to come from further cost efficiencies or improving capital intensity, while meeting regulatory and market requirements in the payment (European Payment Services Directive 'PSD2', Instant Payment, Near Field Communication payment, blockchain) and data management landscape (General Data Protection Regulation 'GDPR', Open Banking, Artificial Intelligence). The banking industry is also facing heightened competition on its traditional banking products and services following the arrival of new entrants such as mobile banks, tech companies and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists', etc.), driven by the implementation of these new regulations. These potential competitors are capable of capturing part of the banking sector's value chain' by offering to their customers relatively more flexible and reactive services, leveraging new technologies, attractive pricing, or more responsive online banking services via smartphones or tablets. The pandemic has further triggered the shift to digital and mobile banking in all European countries.

Mitigating actions

The Group strategy – highlighted in the 'Presentation of activities and strategy' section on page 4 – aims to improve returns in Continental Europe.

HSBC Group remains vigilant on competition developments around technology innovations and maintains high level contacts with the 'Fintech ecosystem'. HSBC's approach to Innovation and Digital Transformation is primarily through Collaboration and Equity Investments in cases where we see benefits in partnering or investing in companies instead of building a similar proposition in-house.

HSBC Continental Europe has continued to develop its omnichannel and digital functionalities with a view to improve the customer experience on all channels, notably with the launch of the new mobile app Mobile X, the implementation of Apple Pay and account aggregator Personal Economy, improvements around customers' authentication journeys, and the implementation of digital signature for a broader set of products in Retail, particularly in the lending space. In Private Banking, we have launched a service based on a multi-factor risk model platform to allocate portfolios adequately, depending on our clients' risk profile. Amongst the various global initiatives, the wholesale bank has been developing innovative client solutions, enhancing business intelligence and analytics, streamlining and digitalising its business processes, while encouraging more innovative thinking. Client applications have been transferred to the Cloud, cybersecurity has been reinforced, and Treasury APIs have been developed. HSBC Continental Europe has implemented Instant Payment (reception for retail customers, reception/emission for corporate customers) and will focus on subscription and authentication processes, while further enhancing the online banking platform for private individuals and firms.

The PSD2 project is well structured in France and Continental Europe to ensure that the bank complies with its obligations and is also looking at key business opportunities. GDPR is now applied in a structured manner within HSBC Continental Europe. Staff are supported through training on risk management, cybersecurity, and new regulations (Sapin II, PSD2, GDPR) to be able to adapt to the new environment.

This risk is stable versus 31 December 2020.

Tax transparency risks

In common with all companies, HSBC Continental Europe is potentially exposed to the risk that tax rules could be misinterpreted or incorrect application of the increasingly complex tax rules that apply. In particular, the tax authorities are increasingly attentive to the transfer pricing that apply between member companies of large international groups such as HSBC.

HSBC Continental Europe runs the risk of a tax adjustment or penalties in the event that the bank does not respect these rules and in particular the requirement to transact with its parent company at normal commercial conditions.

Moreover, certain clients of HSBC Continental Europe could use some of its services with the objective of tax evasion which could expose the bank to charges of collusion and which, if confirmed, could also lead to severe financial, legal and reputational risks.

Mitigating actions

HSBC Continental Europe Tax department works closely with other central Functions and the various Global Businesses as well as with other Group entities to verify that the transactions undertaken for the bank's own account or by our clients are consistent with the spirit and letter of the tax laws (tax transparency principles). Furthermore, it also monitors that the transfer pricing conditions applied by other Group entities is properly justified and documented.

This risk has remained stable versus 31 December 2020.

Internally driven

People risks

A more challenging external environment, both in terms of economic and pandemic situation, as well as the implementation of several restructuring projects and the potential selling of our retail banking activity impacted the bank's staff and created an environment that many employees perceive as source of anxiety and uncertainty.

The current transformation and increasing complexity in the banking industry modify the skills and expertise required in all Businesses and Functions. Staff has to adapt and develop new competencies, which could create a feeling of unsuitability for some of them.

Mitigating actions

In order to mitigate the above risks, HSBC Continental Europe is making regular and clear communications to all staff on the reorganizations, projects in progress and future skills. The bank also monitors carefully the workload and stress level of its employees via bi-annual surveys. Line managers are equally made aware of this risks related to mental health regularly and are encouraged to take appropriate action when necessary. HSBC Continental Europe has developed a series of collaborative workshops to collect feedback and concrete action plans, as a programme called #Resilience to help managers and employees coping with the current context. In addition, HSBC Continental Europe has deployed specific learning classes 'Future Skills' for staff to develop new competencies and adapt themselves, and promote its Degreed learning platform.

The risk has increased versus 31 December 2020.

Model risks

Model risk arises when business decision making includes some reliance on models, which are increasingly used across many areas of the bank in both financial and non-financial contexts. While sound controls are already in place, in particular the maintenance of a model inventory and its extensive coverage by regular independent model validations, a new and more ambitious Model Risk Policy is being implemented to improve them further and effectively manage model risk. Failure to do so could expose the bank to reliance on ill-controlled models, impact strategic objectives especially in terms of efficient use of capital, and bring reputational risk to HSBC Continental Europe.

For regulatory capital models specifically, HSBC Continental Europe's supervisors continue to hold their expectations high regarding model quality and control. Supervisory Authorities have expressed reservations on the quality of some current models, but also of new developments submitted for approval, which generates a risk that unfavourable conditions may be imposed for the calculation of Risk Weighted Assets based on internal models; and, beyond, this makes the usage of internal models uncertain over the longer term for some client segments. On the longer term, several changes are ongoing, planned or being considered by supervisors: enhanced definition of default, reassessment of models used for Probability of Default and Loss Given Default, CRR2 and 3, Fundamental Review of the Trading Book. This leads to uncertainty on the long-term regulatory framework for regulatory capital models, which might need significant redevelopments, entailing risks of regulatory approval issues, and of capital impacts in case of defects in the new models' performances.

Given its unprecedented nature, the Covid-19 crisis is a major challenge for models, as they mostly rely on the assumption of stable relations between some economic and financial features. In particular, Probability of Default models used for regulatory capital and provisioning performed less well and had to be adjusted on the basis of recent observations or expert judgement.

The deep changes in rate benchmarks ('IBOR') that are ongoing and will continue over the next few years, can cause model-related challenges in areas such as Traded Risk and Markets Valuation, in particular due to uncertainties related to the timing and exact nature of the transition period. Lack of awareness of the impact on the model landscape and model risk, could result in ineffective prioritisation of coordinated activities, and partial inability to cope with some aspects of the transition.

The increasing regulatory expectations on financial institutions to understand the impact of climate change is leading to an increased use of modelling in a new context. These models are generally judgmental and are limited by the depth of data available, leading to higher levels of uncertainty than in other modelling contexts.

On the development side, models are used by businesses on a wider and wider scope, with more sophisticated modelling approaches linked to technical developments in machine learning. While this is expected to result in increased efficiency, there is a risk that model controls might not follow the pace of developments, leading to lower visibility on actual model risks. Besides, the growing focus on environment risk is not translated yet into the bank's models, which might ultimately lead to an incorrect assessment of this risk and to inadequate business decisions.

Mitigating actions

HSBC Continental Europe is actively improving its model risk management framework, following the implementation of its new model risk policy. For regulatory capital models specifically, HSBC Continental Europe is actively engaging with supervisory bodies to ensure their concerns are addressed and expectations are being met. Development of enhanced models for the main areas of concern is ongoing, with some models submitted to supervisors in 2021 and some planned to be in 2022.

The consequences of future regulation changes on models are reviewed in formal project planning and working groups established, as required, to address regulatory change, including the Fundamental Review of the Trading Book and Basel III reforms. Review of broader regulatory guidance for model implications will continue, and be addressed in conjunction with established HSBC working groups and governance. Active engagement with regulatory bodies will continue.

The performance of the bank's models in the crisis context is being actively monitored, in particular with a particular category created for credit override when model output is inadequate. Adjustments are in place on scenarios used for provisioning.

Concerning rate benchmarks, a model risk working group has been set up at the level of HSBC Group to monitor the transition from the model risk perspective. Global businesses and model owners are already delivering model changes with the support of Model Risk Management, with all functions continuing to assess further model impacts during the transition period.

This assessment of environmental risk is still emerging in the bank's modelling community; the second line of defence encourages businesses to consider the relevance of embedding environmental factors in future redevelopments. Both businesses and the second line of defence have been involved in the development of climate risk modelling frameworks, and validations requirements are being defined.

Model Risk Management in HSBC Group is working in close conjunction with the global businesses and functions to master the advanced analytic developments and technologies, actively reaching out to new Artificial Intelligence-Machine Learning ('AI-ML') programs which are in the process of being developed. The embedding of environment risks in modelling is still an emerging topic; the second line of defence is encouraging businesses to consider it in their upcoming model developments.

The risk has increased relative to 31 December 2020.

Execution risks

In order to deliver our strategic objectives and meet mandatory regulatory requirements, it is important for HSBC to maintain a strong focus on execution risk.

The increase of different projects and reorganisations in progress at HSBC Continental Europe could generate conflicting priorities and conflicts *vis-à-vis* the allocation of resources.

This could impact on the management of each project, its correct and timely completion and on the running of the bank with possible consequences such as financial losses, reputational damage or also regulatory sanctions.

Mitigating actions

HSBC Continental Europe provides the necessary means to manage its various projects be they technical, financial or human, particularly in an environment where these resources are shared with the other parts of the HSBC Group at European and global level. These are subject to regular monitoring as part of the governance framework adapted to the nature and complexity of the projects. The most important projects are followed at the highest possible global, regional and local governance forums.

The local governance is ensured by the monthly Oversight Project Committee and a dedicated follow up of the HSBC Continental Europe Transformation program.

The risk has increased since 31 December 2020.

IT risks & Operational resilience risks

Apart from malicious activities, the bank's IT systems are also exposed to malfunction or breakdown risk, which would affect HSBC Continental Europe's clients, operations or its ability to comply with regulatory obligations.

Mitigating actions

HSBC Continental Europe is implementing a regular data and software migration programme onto new servers. In some instances, the Bank decided to outsource some IT services to third party companies whenever it is safer and more efficient. The use of Cloud services allows us to increase our resilience while maintaining control over our data, applications and architecture.

An evergreening plan is in place to update the software being used with the recent versions to ensure that vendor support will be obtained if an incident occurs.

This risk is stable versus 31 December 2020.

Data management risks

HSBC Continental Europe uses a large number of systems and applications to support key business processes and operations. As a result, there is a need to reconcile multiple data sources, including customer data sources, to reduce the risk of error, and to ensure an accurate, complete and up to date data in the systems. HSBC Continental Europe also needs to meet internal and external/ regulatory obligations such as the General Data Protection Regulation ('GDPR'), the Basel committee for Banking Supervision ('BCBS' 239) principles and Basel III.

Mitigating actions

- HSBC Continental Europe continues to improve data quality across a large number of systems used. Data management, aggregation and oversight continues to strengthen and enhance the effectiveness of internal systems and processes. Data controls are implemented for critical processes in the 'front-office' systems to improve data capture at the point of entry. There are ongoing improvements and investments on data Governance, data Quality, data Architecture and data Privacy, and enhancements on data controls to comply the increased regulatory requirements and to better meet customer expectations.
- Through the Global Data Management Framework, HSBC has made progress in increasing coverage of key business processes and associated critical data to monitor which again HSBC Continental Europe is benefiting from. A proactive monitoring and reporting on the quality of customer, product, reference and transaction data is designed for identify, track remediation and resolve the associated data issues in a timely manner.
- A new HSBC data strategy and data program was launched in 2021 for deliver a single Risk Taxonomy, Controls Library, Policy, Tooling and Organizational Design, supplemented by data literacy training. The delivery of this program will improve the HSBC Continental Europe data risk management. The controls on Data Management and Data Integrity are uplifted and the new control on data storage is applicable from January 2022.
- HSBC is continuously improving the global Data Privacy Framework that establishes data privacy practices, design principles and guidelines that demonstrate compliance with Data Privacy Laws and Regulations in the jurisdictions which HSBC Continental Europe operates such as the GDPR in Europe. Streamlining on the implementation of data privacy processes with new tools to enhance compliance with data privacy regulation on Data Transfers, Privacy Impact Assessments and Record of Processing.
- HSBC Continental Europe is also involved in the HSBC Group efforts initiated to modernize data architecture and infrastructure through adoption of big data, cloud, machine learning, advanced analytics and visualization technologies. In an effort to help employees stay up-to-date on Data Management and Data Privacy items, HSBC continues to ensure data literacy and data privacy awareness trainings highlighting HSBC commitment to protect personal data for customers, employees and stakeholders.

The risk is stable versus 31 December 2020.

Third Party Risk

HSBC Continental Europe utilises third parties for the provision of a range of services, in common with other financial service providers. Risks arising from the use of third-party service providers may be less transparent and therefore more challenging to manage or influence.

It is critical that we ensure we have appropriate risk management policies, processes and practices.

These should include adequate control over the selection, governance and oversight of third parties, including Cloud, particularly for key processes and controls that could affect operational resilience.

Any deficiency in our management of risks arising from the use of third parties could affect our ability to meet strategic, regulatory or client expectations.

Mitigating actions

HSBC Continental Europe continued to embed its delivery model in the first line of defence through several dedicated teams. Processes, controls and technology to asses third party service providers against key criteria and associated control monitoring and assurance have been developed.

Within the second line of defence, the Resilience Risk is in charge of defining the strategy and the policy for an effective management of the Third Party Risk.

Any outsourcing of a material service is formally approved by the Bank Risk Management Meeting prior to the contract commencement date.

A dedicated Cloud Committee is implemented to review each project to outsource on a Cloud to ensure adherence to the Group Cloud strategy and to review data privacy, regulatory compliance, Legal and IT aspects. A quarterly Third Party Risk Forum is in place to ensure that third parties are managed in line with Group standards and regulatory expectations.

The risk has increased versus 31 December 2020.

Risk factors

HSBC Continental Europe has identified a comprehensive list of risk factors that cover the broad range of risks our businesses are exposed to. A number of the risk factors have the potential to have a material adverse effect on our business, prospects, financial condition, capital position, reputation, results of operations and/or our customers.

They frame the ongoing assessment of our top and emerging risks that may result in our risk appetite being revised.

For the risks linked to Covid-19 see 'Areas of Special Interest' on page 108.

Category	Risks	Probability (Very Unlikely/ Unlikely/Likely/ Very Likely)	Impact (Low/ Medium/ High/ Very High)
Macroeconomic and geopolitical risk	Current economic and market conditions may adversely affect HSBC Continental Europe's results.	Likely	High
	Market fluctuations may reduce HSBC Continental Europe's income or the value of its portfolios.	Likely	Medium
	HSBC Continental Europe may lose access to its liquidity or funding sources, which are essential to its businesses.	Unlikely	Medium
Macro-prudential, regulatory and legal risks	HSBC Continental Europe is subject to numerous legislative or regulatory requirements and developments and changes in the policy of regulators or governments and we may fail to comply	Likely	High
	HSBC Continental Europe is exposed to the risks associated with the replacement of Ibor (interbank offered rates).	Likely	High
Risks related to our operations	HSBC Continental Europe remain susceptible to a wide range of cyber-risks that impact and/or are facilitated by technology.	Likely	High
	HSBC Continental Europe's operations are highly dependent on our information technology systems.	Likely	High
	HSBC Continental Europe could incur losses or be required to hold additional capital as a result of model limitations or weaknesses.	Likely	High
	HSBC Continental Europe's operations utilise third-party and intra group suppliers and service providers which may be exposed to risks that HSBC Continental Europe may not be aware of.	Likely	Medium
Risks related to our governance and internal control	The delivery of HSBC Continental Europe's strategic actions is subject to execution risk which could impact the expected benefits of its strategic initiatives.	Likely	High
	HSBC Continental Europe's data management and data privacy controls must be sufficiently robust to support the increasing data volumes and evolving regulations.	Likely	Medium
	Third parties may use HSBC Continental Europe as a conduit for illegal activities without its knowledge.	Unlikely	Medium
Risks related to our business	Risks concerning borrower credit quality are inherent in HSBC Continental Europe's businesses.	Likely	High
	HSBC Continental Europe is exposed to a risk of attrition along with a skills retention risk.	Likely	High
	HSBC Continental Europe has significant exposure to counterparty risk.	Likely	High
	HSBC Continental Europe is subject to financial and non-financial risks associated with climate change.	Very Likely	Medium
	HSBC Continental Europe's reputational risk is highly linked to its current organisational evolution.	Likely	Medium
	HSBC Continental Europe's operations are subject to the threat of fraudulent activity.	Likely	Medium
Risks related to financial statements	HSBC Continental Europe's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty.	Unlikely	Medium

Macroeconomic and geopolitical risks

Current economic and market conditions may adversely affect HSBC Continental Europe's results. Probability: Likely/ Impact: High.

Uncertain and at times volatile economic conditions can create a challenging operating environment for financial services companies such as HSBC.

In particular, HSBC Continental Europe have faced and may continue to face the following challenges to its operations and operating model in connection with:

- the Covid-19 outbreak and its impact on global economies could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial services companies such as HSBC);
- the demand for borrowing from creditworthy customers may diminish during periods of recession or where economic activity slows or remains subdued;
- low or negative interest rates could impact bank profitability due to reductions in net interest income. This deterioration in bank profits might affect financial stability or cause credit supply to subsequently tighten;
- HSBC Continental Europe's ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption; and
- market developments may depress consumer and business confidence beyond expected levels. If economic growth is subdued, for example, asset prices and payment patterns may be adversely affected, leading to greater than expected

increases in delinquencies, default rates and ECLs. However, if growth is too rapid, new asset valuation bubbles could appear, particularly in the real estate sector, with potentially negative consequences for banks.

The occurrence of any of these events or circumstances could have a material adverse effect on our business, financial condition, results of operations, prospects and customers.

HSBC Continental Europe continually assesses the impact of geopolitical events. Tensions between Russia and the US and a number of European states have heightened significantly following the escalation of hostilities between Russia and Ukraine. While negotiations are ongoing to seek a resolution, a continuation of or any further deterioration to the situation could have significant geopolitical implications, including economic, social and political repercussions on the group and its customers. In addition, the US, the UK and the EU have threatened a significant expansion of sanctions and trade restrictions against Russia in the event of a Russian incursion into Ukraine, and Russian countermeasures are also possible. We will continue to monitor the development of this situation and any potential implications for HSBC Continental Europe.

The Covid-19 outbreak, has had, and continues to have, a material impact on businesses and on the economic environment in which HSBC Continental Europe operates. It has caused disruption to HSBC Continental Europe's customers, suppliers and staff. In most countries in which HSBC Continental Europe operates, notably in France, schemes initiated in 2020 by national governments to provide financial and social support to the economic sectors most impacted by the Covid-19 outbreak have been maintained in 2021 or cautiously and only partially withdrawn.

Global economic activity has significantly recovered in 2021, after the sharp fall seen in 2020 due to the Covid-19 crisis. This rebound has been driven by the reopening process observed in most of developed countries on the back of the significant progress in vaccination campaigns. However, this reopening process has not been linear because different parts of the world have been hit during the year by successive waves of Covid-19 driven by new variants (Delta and Omicron in particular). Even if these waves had generally a more limited economic impact than in 2020, they still weighed on the global recovery, which has been erratic and irregular.

The situation in Europe has followed this general pattern. Eurozone GDP rose by 2.2 per cent quarter on quarter in the third quarter of 2021, reducing the gap with its pre-pandemic level to 0.5 per cent. France has fared even better as its GDP virtually returned to its pre-pandemic level (-0.1 per cent). This recovery has also led to a marked drop in unemployment. For example, French employment returned above its pre-pandemic level in the third quarter. Moreover, leading indicators for the fourth quarter have not signalled a marked collapse in economic activity, in spite of the emergence of the Omicron variant at the end of the year.

On a less upbeat note, eurozone inflation picked up sharply, reaching 5.0 per cent year on year in December 2021 (according to the flash estimate) versus 0.9 per cent at the start of the year (3.4 per cent after 0.8 per cent for France according to the EU harmonised measure). This trend led the European Central Bank ('ECB') to adopt a less accommodative tone during the year. The ECB Governing Council decided to reduce its pace of asset purchases under the emergency pandemic program ('PEPP') and announced the end of net purchases for this program by the end of March 2022.

In terms of Covid-19, the main findings for 2021 are:

- After a significant increase in 2020 (EUR 67 million), ECL's slightly decreased by EUR 6.4 million last year on Stages 1 & 2, reflecting the improvement of the forward looking macro-economic scenarios used to estimate the credit losses. Regarding the Stage 3 impairments, the charge in 2021 was limited (EUR 39.5 million vs. EUR 222 million in 2020), reflecting a reduction in number of new cases going into financial restructuring, as a consequence of governmental supporting measures.
- The HSBC Continental Europe credit portfolio has been resilient so far, but we believe that the relative good performance of this portfolio of French SME clients at this point in the cycle remains somewhat artificial, and that the financial situation might deteriorate for some of these clients as and when they will start repaying their Pret Garanti d'Etat ('PGE'). – which is additional debt that will have to be repaid – and depending on the pace at which the French government will stop the different support measures. The Retail portfolio has exhibited limited risk so far with regards to PGE.
- For the Retail business, the portfolio has now recovered from the impact of the crisis with key risk indicators, such as delinquency rates and Non-performing loans ('NPL') now below pre Covid-19 levels.
- Dedicated Covid-19 stress tests did not exhibit significant potential market risk losses on Trading portfolios.
- No material operational losses have been recorded due to Covid-19.
- The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have materially impacted the performance of financial models.
- An increase in psycho-social (people) risks overall.
- The new collective agreement was signed in France and working from home has become part of the 'new normal'. The majority of our employees have adopted the hybrid working mode in 2021.

On the wider portfolio, the current macro risks, i.e. higher energy prices, supply chain dislocations, inflationary expectations, as well as the further spike in Covid-19 cases and associated risks of lockdown warrant heightened vigilance. HSBC Continental Europe continues to make use of its risk identification and portfolio management processes to identify and monitor the most vulnerable names. The results of stress tests on the HSBC Continental Europe capital ratios are monitored to identify areas of risk and used to inform risk appetite across the entity as a whole.

HSBC Continental Europe's priority in 2022 is to continue to manage the consequences of the Covid-19 health crisis while carrying on with the transformation and growth of its businesses.

Market fluctuations may reduce HSBC Continental Europe's income or the value of its portfolios. Probability: Likely/ Impact: Medium.

Our businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices, and the risk that our customers act in a manner inconsistent with our business, pricing and hedging assumptions.

Market movements will continue to significantly affect HSBC Continental Europe in a number of key areas.

For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, equity risk, inflation risk and credit spread risk. Changes in interest rate levels, interbank spreads over official rates, yield curves and spreads affect the interest rate spread realised between lending and borrowing costs. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict our ability to change interest rates applying to customers in response to changes in official and wholesale market rates. Our insurance businesses are also exposed to the risk that market fluctuations will cause mismatches to occur between product liabilities and the investment assets that back them. It is difficult to predict with any degree of accuracy changes in market conditions, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations.

See also section'Market risk in 2021' on page 149.

As at 31 December 2021, Market Risk RWAs were EUR 3.784 billion of which EUR 477 million were under standardised approach and EUR 3.308 billion under Internal Model Approach ('IMA'). The standardised RWAs include EUR 3 million of Interest rate risk, EUR 473 million of Foreign exchange risk and EUR 1 million of options. RWAs under IMA include EUR 505 million VaR RWAs, EUR1.557 billion Stressed VaR RWAs, EUR 466 million of Incremental risk charge RWAs and EUR 780 million re Others. See tables: Market risk under standardised approach and Market risk under IMA on page 154.

HSBC Continental Europe may lose access to its liquidity or funding sources, which are essential to its businesses. Probability: Unlikely/Impact: Medium.

HSBC Continental Europe's ability to borrow on a secured or unsecured basis, and the cost of doing so, can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to the wider HSBC Group, HSBC Continental Europe specifically or the banking sector.

Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding, and we place considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in our capital strength and liquidity, and on comparable and transparent pricing. Although deposits have always been a stable source of funding historically, even in times of economic crisis, under an extreme scenario this may not continue.

HSBC Continental Europe also accesses wholesale markets in order to provide funding to align asset and liability balances, maturities and currencies, and to contribute to the financing of our lending and market activities.

Non-favourable macroeconomic developments, market disruptions or regulatory developments may increase our funding costs or challenge the ability of HSBC Continental Europe to raise funds to support or expand its businesses.

If the bank were unable to raise funds through deposits and/or in the capital markets, our liquidity position could be adversely affected, and we could be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet our obligations under committed financing facilities and insurance contracts or to fund new loans, investments and businesses. We may need to liquidate unencumbered assets to meet our liabilities. In such an extreme scenario and in a time of reduced liquidity, we may be unable to sell some of our assets, or we may need to sell assets at reduced prices, which in either case could materially adversely affect our business, prospects, financial condition and results of operations. It is difficult to predict with any degree of accuracy changes in access to funds, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations. Nevertheless, a number of contingent actions and procedures – including business actions, and accessing the central bank refinancing operations are in place in HSBC Continental Europe's Contingency Funding Plan in order to tackle such a situation should it happen, which materially reduces the impact of this risk should it materialise.

HSBC Continental Europe will no longer have access to retail deposits and covered bonds after the sale of its retail activities in France. However, given the business is a net consumer of funding, its disposal is not expected to adversely affect the overall funding position of the bank.

HSBC Continental Europe undertakes liquidity stress testing to test that its risk appetite is adequate, to validate that it can continue to operate under various stress scenarios that involve an analysis on the relevant probable or severe area of risk to HSBC Continental Europe, and to confirm that the stress assumptions within the Liquidity Coverage Ratio ('LCR') scenario are appropriate and conservative enough for the group's business.HSBC Continental Europe continues to rely on its daily internal stress test metric, complementing the LCR, for the operational day-to-day management of the Bank's liquidity position. Moreover, several other different stress tests are run on varying durations and nature whose assumptions and results are reviewed in the Asset, Liability, and Capital Management Committees ('ALCO') and presented through the Internal Liquidity Adequacy Assessment Process ('ILAAP') to the Board.

Macro-prudential, regulatory and legal risks to the business model of HSBC Continental Europe

HSBC Continental Europe is subject to numerous legislative or regulatory requirements and developments and changes in the policy of regulators or governments and we may fail to comply with all applicable regulations, particularly any changes thereto. Probability: Likely/Impact: High.

HSBC Continental Europe businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in France, the EU, the UK and US and the other markets in which we operate. This is particularly the case given the expected long term economic impact of the Covid-19 outbreak and the consequent high volume and wide-ranging regulatory interventions. Additionally, many of these changes have an effect beyond the country in which they are enacted, as either regulators deliberately enact regulation with extra-territorial impact or our global operations mean that HSBC is obliged to give effect to 'local' laws and regulations on a wider basis.

In recent years, regulators and governments have focused on reforming both the prudential regulation of the financial services industry and the ways in which the business of financial services is conducted. Measures include enhanced capital, liquidity and funding requirements, the separation or prohibition of certain activities by banks, changes in the operation of capital markets activities, the introduction of tax levies and transaction taxes, changes in compensation practices and more detailed requirements on how business is conducted. The governments and regulators in France, the EU, the UK and US or elsewhere may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect us.

Specific areas where regulatory changes could have a material effect on our business, financial condition, results of operations, prospects, capital position, and reputation and current and anticipated areas of particular focus for HSBC's regulators, include, but are not limited to:

- the ongoing regulatory response to the Covid-19 pandemic and its implications for banks credit risk management and provisioning processes, capital adequacy and liquidity, and a renewed focus on vulnerable customers including the treatment of customers, including consideration of longer-term initiatives to support borrowers in financial difficulty, the deployment of digital solutions and measures designed to maximise access to cash for consumers;
- the increasing focus by regulators, international bodies, organisations and unions on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets;
- the abolition of certain Ibor reference rates across the world and the transition to new replacement including the assessment and the management of Conduct risks.
- reviews of regulatory frameworks applicable to the wholesale financial markets, including reforms and other changes to conduct of business, listing, securitisation and derivatives related requirements;
- the focus globally on technology and digital, underpinned by customer protection, including the use of artificial intelligence and digital assets (data, identity and disclosures), financial technology risks, payments and related infrastructure, operational resilience, virtual currencies (including central bank digital currencies and Global Stablecoin) and cybersecurity and the introduction of new and/or enhanced standards in this area;
- the challenges for institutions arising from expanding and increasingly complex regulatory reporting obligations, including high supervisory expectations for data integrity and the governance around regulatory reporting;
- increasing regulatory expectations of firms around governance and risk management frameworks, particularly for management of climate change, diversity and inclusion in particular for financial fragility and vulnerable clients and other ESG risks and enhanced ESG disclosure to customers and reporting obligations;
- the implementation of the reforms to the Basel III package, which includes changes to the approaches to credit risk, market risk, counterparty risk, operational risk, credit valuation adjustment RWAs and the application of capital floors;
- the setup of an Intermediate EU Parent Undertaking (EU IPU) incorporating all EU banking activities of the Group
- the implementation of more stringent capital, liquidity and funding requirements, including changes to IRB modelling requirements;
- the financial effects of climate changes being incorporated within the global prudential framework, including the transition risks resulting from a shift to a low carbon economy;
- the implementation of any conduct measures as a result of regulators' focus on institutional culture, employee behaviour and whistleblowing, including measures resulting from ongoing thematic reviews into the workings of the retail, SME and wholesale banking sectors and the provision of financial advice to consumers;
- changes in national or supra-national requirements, including the finalization of EBA Guidelines on outsourcing remediation, regarding the ability to offshore or outsource the provision of services and resources or transfer material risk to financial services companies located in other countries, which impact our ability to implement globally consistent and efficient operating models;
- financial crime and market abuse standards and high expectations for control frameworks, to ensure firms are adapting to new threats such as those arising from the Covid-19 outbreak, and are protecting customers from cyber-enabled crime;
- the application and enforcement of economic sanctions including those with extra-territorial effect and those arising from geopolitical tensions
- the increasing regulatory expectations and requirements relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions; and
- continuing regulatory focus on the effectiveness of internal controls and risk management frameworks

We continue to strengthen our processes and controls over regulatory reporting, including commissioning independent external reviews of various aspects of regulatory reporting. We continue to keep the relevant regulators informed of adverse findings from external reviews and our progress in strengthening the control environment.

HSBC Continental Europe is exposed to the risks associated with the replacement of IBOR. Probability: Likely/ Impact: High.

The replacement of key IBOR rates (LIBOR/EONIA) with alternative benchmark rates introduces a number of risks for HSBC Continental Europe, its clients, and the financial services industry more widely. This includes, but is not limited to:

- Execution/operational risks, due to the requirement to adapt IT systems, infrastructure and operational processes, notably for the legacy book transition;
- Conduct risks, relating to potential negative outcomes for the clients resulting from the sales of new product, the continued sales of IBOR products and the transition of the legacy book;
- Legal risks, as changes required to documentation for new and existing transactions may be required.

See also section 'IBOR transition' in the Areas of Special Interest on pages 108-109.

Risks related to our operations

HSBC Continental Europe remains susceptible to a wide range of cyber-risks that impact and/or are facilitated by technology. Probability: Likely/Impact: High.

The threat of cyber-attacks remains a concern for HSBC Continental Europe, as it does across the entire financial sector.

Failure to protect the HSBC Group's operations from internet crime or cyber-attacks may result in financial loss, disruption for customers or a loss of data. This could undermine the HSBC Group's reputation and its ability to attract and keep customers. The most prevalent cybersecurity threats intend to prevent customers from accessing our online services by attempting to exploit vulnerabilities in our systems (through malware or unauthorised access), disrupt our business, and cause data loss.

Whilst we had a moderate incident on a third party, there have been no material cyber-related breaches that impacted our customers or operations in 2021. However, the risk remains that future cyber-related attacks will have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

HSBC Continental Europe did not report any operational losses related to Cyber risks in either 2018, 2019, 2020 or 2021. Operational losses for combined Technology and Cyber Security risk was zero in 2021. .

HSBC Continental Europe's operations are highly dependent on our information technology systems. Probability: Likely/Impact: High.

The reliability and security of our information and technology infrastructure, and our customer databases are crucial to maintaining the service availability of banking applications and processes and to protecting the HSBC brand. The proper functioning of our payment systems, financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between our branches and main data processing centres, are critical to our operations. Critical system failure, any prolonged loss of service or data availability or any material breach of data integrity, could cause serious damage to our ability to service our clients, could breach regulations under which we operate and cause long-term damage to our business and brand that could have a material adverse effect on our business, prospects, financial condition and results of operations. No noticeable incidents or disruptions were reported for HSBC Continental Europe in 2019, 2020 and in 2021. In addition HSBC Continental Europe management considered the financial control environment and reviewed action taken to enhance controls over IT access management.

Operational losses for Technology and Cyber Security risk in 2021 was zero in 2021. See table on page 159 of the *HSBC Continental Europe Universal Registration Document 2021* concerning Operational risk losses: quantitative data starting from 2013 for full details.

HSBC Continental Europe could incur losses or be required to hold additional capital as a result of model limitations or weaknesses. Probability: Likely/Impact: High.

HSBC Continental Europe uses models for a range of purposes in managing its business, including calculation of RWAs, loan impairment charges, fair valuation of some financial instruments, financial crime and fraud risk management, stress testing, and credit approvals.

HSBC Continental Europe could in some cases face adverse consequences as a result of decisions by management based on the use of models. This can happen when models have been inadequately designed or implemented, when their outcome is misunderstood or used beyond the model's intended use case, or as a result of random events whose probability was neglected in the model design. Such events are made more probable by the uncertain and unprecedented environment created by the Covid-19 crisis. Risks arising from the use of models could have a material adverse effect on our business, prospects, financial condition, results of operations, minimum capital requirements and reputation. Regulatory scrutiny and supervisory concerns over banks' use of models is considerable, particularly the internal models and assumptions used by banks in the calculation of RWAs. In case of significant model deficiencies, regulators may require model re-developments or impose capital add-ons.

For information purposes, Risk Weighted Assets as of 31 December 2021 included EUR 35.449 billion in Credit Risk (of which 68.0 per cent advanced IRB approach, 5.9 per cent foundation approach and 23.3 per cent standardised approach), EUR 4.434 billion in Counterparty Credit Risk (of which 53.5 per cent internal model method, 25.3 per cent standardised approach and 20.1 per cent credit valuation adjustment (CVA)), EUR 3.557 billion in Operational Risk (100 per cent standardised approach), and EUR 3.785 billion in Market Risk (87.4 per cent internal model approach) See table 2 Overview of risk weighted exposure amounts ('OV1') in 2021 HSBC Continental Europe Pillar 3 – page 3. These numbers are for a large part computed using internal models.

Likewise, models are used to infer the fair value of some financial instruments, such as over-the-counter derivatives, whose price cannot be directly observed on trading platforms: models then compute a fair value by leveraging the prices of similar observable financial instruments. They may be based on observable inputs only ('Level 2' fair value accounting) or, in some cases, on some unobservable inputs that have to be prudently estimated ('Level 3' fair value accounting).

For information purposes, as of 31 December 2021, assets valued under Level 2 techniques amounted to EUR 56.0 billion, and liabilities to EUR 49.2 billion; assets valued under Level 3 techniques amounted to EUR 3.4 billion, and liabilities to EUR 825 million (cf. *2021 HSBC Continental Europe Universal Registration Document*, Note 11 of the consolidated financial statements, page 204).

HSBC Continental Europe's operations utilise third-party and intra Group suppliers and service providers which may be exposed to risks that HSBC Continental Europe may not be aware of. Probability: Likely/Impact: Medium.

HSBC Continental Europe relies on external and intra-group third parties to supply goods and services. Regulators have increased their scrutiny regarding the use of third-party providers by financial institutions, including the ones related to how outsourcing decisions are managed. Risks arising from the use of third parties may be more challenging to manage.

The inadequate management of third-party risk could impact our ability to meet strategic, regulatory and client expectations. This may lead to consequences, including regulatory or civil penalties or damage both to shareholder value and to our reputation, which could have a negative impact on our business, clients, capital and profit.

To answer regulatory evolutions related to the implementation of new European Banking Authority ('EBA') guidelines on outsourcing, HSBC Continental Europe has continued to enhance in 2021 its third party risk management framework in order to deal with those risks in a consistent and efficient way within its perimeter. This dedicated framework, applicable within the whole perimeter of HSBC Continental Europe, still needs support from the businesses. Furthermore, remediation works related to pre-existing third-parties are under way. Any outsourcing of a material service needs to be formally approved by the Bank's Risk Management Meeting.

We had one moderate incident with a Third Party in 2021, without any loss. See cyber – risk factor section.

Risks related to our governance and internal control

The delivery of HSBC Continental Europe's strategic actions is subject to execution risk which could impact the expected benefits of our strategic initiatives. Probability: Likely/Impact: High.

With regards to the current operating environment in Europe, HSBC Group has reviewed its strategy and operations in order to implement a sustainable and profitable operating model that would be able to best serve its clients in the future. Given these guidelines, Global Businesses have reviewed their operating models, to build more streamlined and effective operations across Europe. HSBC Continental Europe has a clear and focused strategy that is consistent with the HSBC Group's strategy.

Within this framework, our strategy in Europe is to become the leading international wholesale bank, complemented by a targeted wealth management business. The HSBC Group's international network and expertise along with HSBC Continental Europe's coverage and capabilities provide us with a strategic advantage to help clients achieve their goals, whether it is growing their businesses in the single market or breaking into international markets.

HSBC Continental Europe continues to implement a number of programmes in support of the development of the Group's Continental European hub based in Paris. We have finalised the repositioning underperforming businesses, and have completed the strategic review of our French retail banking activities. We continue to adapt our operating model, and support regulatory programme. Please refer to 'HSBC Bank plc's strategy' on page 4 and 'HSBC strategy implemented in Continental Europe'on page 4.

The development and implementation of HSBC Continental Europe's strategy requires difficult and complex judgements, including forecasts of economic conditions in Continental Europe but also in other parts of the world. Robust management of critical time-sensitive and resource intensive projects is required to effectively deliver HSBC Continental Europe's strategic priorities. The magnitude and complexity of the transformation underway does present heightened execution risk. The cumulative impact of the collective change initiatives within HSBC Continental Europe is significant and has direct implications on HSBC Continental Europe's resourcing and people. In addition, these strategic actions are being undertaken in an uncertain economic, market and regulatory context, which may result in volatility in financial results and necessary adaptation of strategy execution to take new environment into account.

HSBC Continental Europe could incorrectly identify the trends it seeks to leverage and the relevant factors in making decisions as to capital deployment and cost reduction. Key to achieving HSBC Continental Europe's strategy is to increase the cross-business and cross-border synergies between HSBC Group's different entities across the globe, while ensuring an efficient operating model across our Continental European operations.

The failure to successfully deliver key strategic actions or other regulatory programmes could have a significant impact on HSBC Continental Europe's financial condition, profitability and prospects, as well as wider reputational and regulatory implications. Execution Risk linked to the ongoing number of projects is being managed and mitigated through a Project Oversight Committee.

HSBC Continental Europe's data management and data privacy controls must be sufficiently robust to support the increasing data volumes and evolving regulations
Probability: Likely/Impact: Medium.

Business processes rely on large volumes of data from a number of different systems and sources. If data governance including retention and deletion, data quality and data architecture policies and procedures are not sufficiently robust, manual interventions, adjustments and reconciliations may be required to reduce the risk of error in reporting to senior management or to Regulators. Inadequate policies and processes may also affect our ability to use data within HSBC Continental Europe to service customers more effectively and/or improve our product offering. This could have a material adverse effect on our business, prospects, financial results and firm reputation.

Moreover, financial institutions that fail to comply with the principles for effective risk data aggregation and risk reporting as set out by the Basel Committee by the required deadline may face regulatory measures.

In addition, failure to comply with the EU General Data Protection Regulation ('GDPR') and Data Privacy requirements may result in regulatory sanctions and fines in addition to potential reputational impacts. In 2021, a moderate data leakage incident occurred at a third party provider holding email's customers for a satisfaction survey following a ransomware attack. This incident was notified to the French data protection regulator (CNIL). We observed over the last years that the Regulators expect HSBC to do more by increasing their capabilities and scope for compliance on Data Management, Data Architecture and Data Privacy requirements.

Third parties may use HSBC Continental Europe as a conduit for illegal activities without its knowledge.
Probability: Unlikely/Impact: Medium.

We are required to comply with applicable Anti Money Laundering ('AML') laws, Sanctions, Anti Bribery & Corruption ('AB&C'), Fraud Prevention and Tax Transparency regulations, and have adopted HSBC Group policies and procedures, as well as additional local legislative regulatory requirements, and regulators and Financial Investigation Unit's expectations and recommendations including Customer Due Diligence procedures and internal control framework and governance, aimed at preventing use of HSBC products and services for the purpose of committing or concealing financial crime and at mitigating HSBC exposition to Financial Crime risks. A major focus of US and UK government policy relating to financial institutions in recent years has been preventing, detecting and deterring money laundering and enforcing compliance with US and EU economic sanctions at Group level.

This focus is reflected in part by our agreements with US and UK authorities relating to various investigations regarding past inadequate compliance with AML, and sanctions.

These consent orders do not preclude additional enforcement actions by bank regulatory, governmental or law enforcement agencies or private litigation. Our local French regulators remain strongly focused on AML-CTF and, more recently, AB&C and Tax Fraud/Tax Evasion matters within the French Banking industry. Furthermore, French anticorruption requirements have been issued pursuant to the loi n°2016-1691 du 9 décembre 2016 said 'Sapin II'. In addition to this, the *AFA* have been established to supervise French companies.

A number of the remedial actions have been taken as a result of the matters to which the US Deferred Prosecution Agreement ('DPA') related, which are intended to ensure that the Group's businesses are better protected in respect of these risks. As HSBC have met their obligations under the DPA, the agreement has expired at the end of 2017.

The Monitor is overseeing HSBC progress under the UK Financial Conduct Authority's instructions and will continue its monitoring. In recent years, we have experienced a substantial rise in the volume of new regulations impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into the bank's activities. In line with the Group's heightened standards and organisation, HSBC Continental Europe has continued to improve the Financial Crime Compliance and Regulatory Compliance framework. However, there can be no assurance that these will be completely effective.

Moreover, in relevant situations, and where permitted by regulation, we may rely upon certain third parties to carry out certain Identification & Verification and KYC activities in accordance with our AML, Sanctions, AB&C, Fraud Prevention and Tax Transparency procedures.

While permitted by regulation, such reliance may not be effective in preventing third parties from using us (and our relevant counterparties) as a conduit for money laundering, including illegal cash operations, without our knowledge (and that of our relevant counterparties) or for financing terrorism, sanctions violation, corruption, fraud or tax fraud and tax evasion. Becoming a party to money laundering, association with, or even accusations of being associated with, money laundering, sanctions violation, corruption fraud or tax fraud/evasion will damage our reputation and could make us subject to fines, sanctions and/or legal enforcement. Any one of these outcomes could have a material adverse effect on our business, prospects, financial condition and results of operations.

Within HSBC Continental Europe, every month, all transactions – more than 30 million across 1.7 million accounts – are analysed to detect signs of money laundering, terrorism financing tax avoidance, bribery and corruption, fraud and failure to comply with sanctions. In addition, 1.7 million names are screened on an ongoing basis using various surveillance lists.

In order to ensure the effectiveness of our policies, an annual training course has been taken by 96 per cent of HSBC Continental Europe employees.

Over the period; a moderate ransomware attack took place on a HSBC Continental Europe Third party provider of customer marketing surveys to HSBC Continental Europe. It has been decided to exit the relation.

Risks related to our business

Risks concerning borrower credit quality are inherent in HSBC Continental Europe's businesses. Probability: Likely/ Impact: High.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties in derivative transactions are inherent in the businesses of HSBC Continental Europe. Adverse changes in the credit quality of our borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems could reduce the recoverability and value of our assets, and require an increase in our loan impairment charges.

The risk is that our assessment of the impact of the factors that we have identified may be inaccurate, or that we fail to identify relevant factors. HSBC Continental Europe's assessment of the creditworthiness of its counterparties may be inaccurate or incorrect. Any failure by HSBC Continental Europe to accurately estimate the ability of its counterparties to meet their obligations may have a material adverse effect on HSBC Continental Europe its prospects, financial condition and results of operations. The level of any material adverse effect will depend of the number of borrowers involved, the size of the exposures and the level of any inaccuracy of our estimations.

The review of counterparties under potential stress has been reinforced since the beginning of the Covid-19 crisis, with a focus on the early identification of cases that showed signs of creditworthiness deterioration.

In 2021, HSBC Continental Europe has continued to build on the measures introduced in 2020 to safeguard its position, and its customers, in the face of economic uncertainty from the pandemic.

One of the key activities for WPB has been the management of those customers that were previously granted repayment deferrals and assessing their current financial position with a view to supporting them in returning to an amortising payment schedule or restructuring the debt if deemed the right solution. This oversight has also been required for professional customers who participated in the treasury loan scheme (secured by the French state), as recipients finished their 12-month payment deferral period, which required getting prepared for the next phase (further deferral, amortisation or repayment). Whilst the demand has been low, these treasury loans have still been provided as this government scheme has been extended until June 2022 for now.

A specific monitoring was put in place to track the approval activity in terms of *Pret Garanti d'Etat ('PGE'),* drawn loans, requests for moratoria. On top of our existing risk identification process, a specific monthly forum was organised to identify and discuss the most vulnerable clients to the pandemic, the ones subject to potential restructurings, and to cover the portfolio trends with regards to the *PGE* activity.

The Business Banking ('BB') portfolio in France has been identified as the most vulnerable segment. To monitor the risk of this SME BB population, our organisation has established a list of monitoring priority for clients representing the bulk of the SME book in France, based on multi-criteria risk identification factors. Priorities in risk monitoring (P1 major risk, P2 potential risk, P3 lower risk) have been determined based on certain criteria, and drive the frequency of contacts that the Relationship Manager should have with their clients.

An IFRS9 overlay related to the credit risk in the BB portfolio in France, and the estimation of the impacts in terms of ECL, have been performed in 3Q2021.

We believe that the relative good performance of this portfolio of French SME clients at this point in the cycle remains fragile, and that the financial situation should deteriorate for some of these clients as and when they will start repaying their PGE – which is additional debt which will have to be repaid – and depending on the pace at which the French government will stop the different support measures. As a result, the IFRS9 models might not entirely reflect the actual phase of the economic cycle for this portfolio.

Credit risk RWAs reduced by 1.1 per cent to EUR 35.449 billion in 2021.

On the wider portfolio, the current macro risks, i.e. higher energy prices, supply chain dislocations, inflationary expectations, as well as the further spike in Covid-19 cases and associated risks of lockdown warrant heightened vigilance. Our organisation continues to make use of our risk identification and portfolio management processes to identify and monitor the most vulnerable names.

After a significant increase in 2020 (EUR 67 million), Expected Credit Losses ('ECL') slightly decreased by EUR 6.4 million last year on Stages 1 & 2, reflecting the improvement of the forward looking macro-economic scenarios used to estimate the credit losses.

Regarding the Stage 3 impairments, the charge in 2021 was limited (EUR 39.5 million vs. EUR 222 million in 2020), reflecting a reduction in number of new cases going into financial restructuring, as a consequence of governmental supporting measures.

Change in expected credit losses and other credit impairment charges ('ECL') was EUR 33 million in 2021 versus 289 million in 2020.

As at 31 December 2021, the Credit Risk RWAs were EUR 35.449 billion representing 74.2 per cent of total RWAs. 93.1 per cent of Loans and advances to customers held at amortised cost are classified as satisfactory or better. 73.1 per cent of credit risk exposure was in France with a further 21.7 per cent in the rest of Europe. 55.2 per cent of the exposure was on an IRB advanced approach with a 42.4 per cent on a standardized approach. The three largest industry exposures by credit risk were Financial and Insurance, Personal & Administrative services with 42.1 per cent, 16.7 per cent and 16.2 per cent respectively and which together represented 74.9 per cent of total credit risk exposures.

For full details concerning RWAs as at 31 December 2021 – See table 2 Overview of risk weighted exposure amounts ('OV1') in 2021 HSBC Continental Europe Pillar 3 – page 3. The geographic breakdown of exposures as at 31 December 2021 of HSBC Continental Europe and the credit risk exposures by industry sectors can be found in tables 20 and 21 on pages 21 and 22 respectively in the *2021 HSBC Continental Europe Pillar 3 document*.

HSBC Continental Europe is exposed to a risk of attrition along with a skills retention risk. Probability: Likely/Impact: High.

The demands being placed on the human resources of the bank remain at a very high level. The workload arising from evolving regulatory reform programmes and restructuring projects places increasingly complex and sometime conflicting demands on the workforce. At the same time, the human resources operate in an employment market where expertise in key markets is often in short supply and mobile.

The continued success of HSBC Continental Europe depends in part on the retention of key members of its management team and wider employee base. The ability to continue to attract, train, motivate and retain highly qualified professionals and talented people who embrace HSBC core values is a key element of our strategy, which is to be a leading international wholesale bank in Europe, involves the execution of restructuring projects that depend on our capacity. If businesses or functions fail to staff their operations appropriately, to attract international profiles, or lose one or more of their key senior executives/talent and fail to successfully replace them in a satisfactory and timely manner, or fail to implement successfully the organisational changes required to support the strategy, or do not succeed to develop shared core values, the sustainable improvement of the results of our activities and more globally of our financial results, alongside with control and operational risks, could be materially adversely affected.

After a trend towards a reduction in resignations, linked to the impact of Covid-19 in 2020 and consequently to the recruitment needs, 2021 is characterised by an increase in recruitment needs linked to a resumption of resignations despite the continuing health crisis.

Psychosocial risk related to higher uncertainty, anxiety and stress, has certainly increased during this prolonged period of Covid-19 pandemic combined with worries linked to the strategy's impacts.

As at 31 December 2021, HSBC Continental Europe had 6,371 full time equivalent employees in France and 1,080 in the branches. Of these 126 were considered as CRD V Material Risk Takers (109 in France & 17 in branches), 49 in accordance with AIFM Directive (including 3 Executive managers who are already in the CRD V material risk takers) and 19 in accordance with Solvency II Directive (Including 11 Executive managers who are already in the CRD IV material risk takers). Concerning gender equality, HSBC Group has set itself clear and transparent targets for the proportion of women in senior executive positions. The target was 30 per cent of senior executives to be women by 2020 rising to 35 per cent by 2025. At the end of 2021, women held 30 per cent of these posts. In addition, in November 2021, HSBC Continental Europe committed to gender parity on the Executive Committee of HSBC Continental Europe from 2024, as well as on the Executive Committees of its businesses and functions. During 2021, there were 320 promotions in France of which 51 per cent were women. The proportion of the employees over 50 years old in HSBC Continental Europe stood at 35 per cent as at 31 December 2021 whilst the proportion of employees less than 30 years old has increased from 10.8 per cent in 2019 to 11.8 per cent in 2021.

HSBC Continental Europe has significant exposure to counterparty risk. Probability: Likely/Impact: High.

HSBC Continental Europe is exposed to counterparties that are involved in virtually all major industries, and we routinely execute transactions with counterparties in financial services, including central clearing counterparties, commercial banks, investment banks, mutual funds, and other institutional clients. Many of these transactions expose HSBC Continental Europe to credit risk in the event of default by our counterparty or client. Our ability to engage in routine transactions to fund our operations and manage our risks could be materially adversely affected by the actions and commercial soundness of other financial services institutions. Financial institutions are necessarily interdependent because of trading, clearing, counterparty or other relationships. As a consequence, a default by, or decline in market confidence in, individual institutions, or anxiety about the financial services industry generally, can lead to further individual and/or system difficulties, defaults and losses. Mandatory central clearing of OTC derivatives, including under the EU's European Market Infrastructure Regulation, poses risks to HSBC. As a clearing member, we will be required to underwrite losses incurred at a Central Counterparty ('CCP') by the default of other clearing members and their clients. Hence, increased moves towards central clearing brings with it a further element of interconnectedness between clearing members and clients that we believe may increase rather than reduce our exposure to systemic risk. At the same time, our ability to manage such risk ourselves will be reduced because control has been largely outsourced to CCPs.

Where bilateral counterparty risk has been mitigated by taking collateral, credit risk for HSBC Continental Europe may remain high if the collateral we hold cannot be realised or has to be liquidated at prices that are insufficient to recover the full amount of our loan or derivative exposure. There is a risk that collateral cannot be realised, including situations where this arises by change of law that may influence our ability to foreclose on collateral or otherwise enforce contractual rights. Any such adjustments or fair value changes may have a material adverse effect on our financial condition and results of operations.

As at 31 December 2021, Counterparty Risk RWAs by approach ('CCR1')were EUR 4.434 billion.

See table: Analysis of CCR exposure by approach ('CCR1') on page 142. Details concerning IRB and Standardised exposure – credit risk mitigation techniques can be found in table 30 on page 33 in the 2021 HSBC Continental Europe Pillar 3 document. See also Counterparty Credit Section on pages 139-141 of the *HSBC Continental Europe Universal Registration Document 2021* .

HSBC Continental Europe is subject to financial and non-financial risks associated with Environmental, Social and Governance Risk. Our main ESG risks are climate risk and , nature-related risks. Probability: Very Likely/Impact: Medium.

Climate change brings risks to our business, our customers and wider society. Climate change could impact HSBC through both transition and physical channels. Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding. The focus on Climate risks increased over 2021 primarily as a result of the pace and volume of policy and regulatory changes, which impacts HSBC both directly and indirectly through our customers.

We currently expect that the following are the most likely ways in which climate risk may materialise for HSBC Continental Europe:

- transition and physical risk may impact our corporate customers, for example if regulatory, legislative or technological developments impact customers business models resulting in financial difficulty for customers and/or stranded assets;
- residential real estate may be affected by changes to the climate and extreme weather events which could impact property values;
- physical risk may impact HSBC's operations, for example if flooding or extreme weather events impacted our critical operations;
- regulatory compliance risk may result from the increasing pace, breadth and depth of regulatory expectations requiring implementation in short timeframes across multiple jurisdictions;
- conduct risks could develop associated with the increasing demand for 'green' products where there are differing and developing standards or taxonomies;
- reputational risks may result from our decisions on how we support our customers in high-emitting sectors.

These events have potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for HSBC which could, in turn, have a material adverse effect on our business, financial condition, results of operations, prospects and strategy.

Financial impacts could materialise, if, for example, transition and physical risks impact the ability of borrowers to repay their loans. This could in turn, result in higher risk weighted assets, greater impairment losses and/or increased capital requirements over the long term.

Non-financial impacts could materialise, for example, through inability to adhere to emerging regulatory requirements. Additionally, our own assets or operations could be impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our climate ambition.

In October 2020, the Group announced its ambition to become net zero in all direct and indirect emissions, known as scope 1, 2 and 3 emissions.

The Group aims to deliver this by achieving net zero in its operations and its supply chain by 2030 or sooner. The Group also plans to align its financed emissions – the carbon emissions of its portfolio of customers – to the Paris Agreement goal of net zero by 2050 or sooner. In May 2021, the HSBC Holdings plc Board presented a special resolution on climate change that was approved by shareholders at the Annual General Meeting. The resolution commits the Group to set, disclose and implement a strategy with short and medium term targets to align our provision of finance. For the purposes of this resolution, *"finance"* and *"financing"* means providing project finance or direct lending to, or underwriting capital markets transactions for, corporate clients of its Global Banking and Commercial Banking businesses. with the goals and timelines of the Paris Agreement. In December 2021, the Group also published its policy to phase out the financing of coal-fired power and thermal coal mining by 2030 in EU and OECD markets, and worldwide by 2040.

In order to track and report on progress against these climate-related targets, the Group relies on a number of internal and external data sources using guidance provided by certain current industry standards. While emissions related reporting has improved over time, we stay focussed on improving their quality an consistency. In addition, methodologies which we have relied upon may develop over time and may be subject to change in line with market practice, regulation and developments in climate science. Any such developments in methodologies, and changes in the availability and quality of data overtime could result in revisions to reported figures going forward meaning that such figures may not be reconcilable or comparable year-on-year.

This could also result in the Group having to re-evaluate its progress towards these climate-related targets in the future.

In order to reach these ambitions and targets or any other climate-related ambitions or targets the Group may set, the Group will need to incorporate climate considerations into its business strategy; the products and services we provide to customers; and our financial and non-financial risk management processes.

There is increasing evidence that a number of nature-related risks beyond climate change can and will have significant economic impact.

These risks are represented by the economic dependency on nature. They can occur when the provision of natural services is comprised due to overpopulation, urban development, natural habitat and ecosystem loss, and other environmental stresses beyond climate change. Nature-related risks can manifest through a variety of other risk types, including macroeconomic, market, credit, reputational, legal and regulatory risks.

For the first time, the World Economic Forum's 2020 Global Risks Report put nature and biodiversity loss as one of the top 5 risks in terms of likelihood and impact in the next 10 years. The Forum estimates that at least 50 per cent of the global economy is dependent on nature-related services and subject to increasing nature-related risk – including sectors such as agri-food business, pharmaceuticals, textiles, energy and tourism.

The incorporation and understanding of nature-related risks within the finance industry, above and beyond climate risk, is nascent though moving at pace. Addressing nature-related risks will be a component of the Group's net zero strategy, and the Group will continue to monitor regulatory requirements, market practices and expectations, and other relevant developments in regards to nature-related risk.

The Group also needs to ensure that its strategy and business model adapt to changing regulatory requirements and market expectations. Achieving the ESG related ambitions and targets will also depend on a number of factors outside of the Group's control, including availability of data to measure and assess the climate and nature impact of our customers, as mentioned above; advancements of low carbon technologies; and supportive public policies in the markets where the Group operates. If these external factors and other changes do not occur, or do not occur on a timely basis, the Group may fail to achieve its ESG related ambitions and targets and this could have an adverse impact on the Group's business, financial condition, results of operations and prospects.

HSBC Continental Europe is fully aligned with Group's ambition to Net Zero on its financed emissions and investments by 2050 and on its operations by 2030. Also, in order to strengthen its overall climate and ESG approach, it has reinforced its governance of climate-related & environmental risks to ensure that all upcoming sustainable finance regulations and obligations are implemented while driving the implementation of the net Zero and business strategy.

HSBC Continental Europe's reputational risk is highly linked to its current organisational evolution. Probability: Likely/Impact: Medium.

Reputational risk has significantly increased in the context of HSBC Continental Europe business model reshaping: The path of transformation and the intense activity linked to an important number of strategic projects managed concurrently have attracted media pick up, most notably the Group's strategic review of retail operations in France, the reorganisation in Markets and Securities Services and Global Banking, followed by the reorganisation of its commercial banking business and its functions.

These reorganisation programmes could affect directly HSBC Continental Europe, financially or otherwise along with partners and clients' trust. Simultaneously the level of uncertainty has increased for both customers and employees and our ability to hire or retain them may be impacted by a long lasting period of lack of visibility on our future businesses and operations. Negative public opinion may adversely affect our ability to retain and attract customers, in particular, corporate and retail depositors, and retain and motivate staff, and could have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

HSBC Continental Europe has not experienced any incidents that have impacted the reputation of the Bank. The moderate event with a Third party did not lead to reputational risk, as actions have been taken to protect our clients and the Bank.

HSBC Continental Europe's operations are subject to the threat of fraudulent activity. Probability: Likely/Impact: Medium.

The risk of fraud has increased and been made more complex by the digital transformations operated within HSBC, fraudsters may target any of our products, services and delivery channels (especially the online on-boarding), including lending, internet banking, payments, bank accounts and cards, and cyber-attacks against the bank's infrastructure are increasing in frequency and force. This may result in financial loss to HSBC Continental Europe, an adverse customer experience, reputational damage and potential regulatory action depending on the circumstances of the event, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations.

There is consumer association pressure to make banks liable for substantially more of consumer fraud losses in absence of comprehensive fraud prevention solutions and controls. There are expectations as well that as the attacks become more sophisticated, feasible, and storylines believable, more customers may increasingly become vulnerable to Social Engineering and similar scams. Consequently, it will become more difficult to evidence customer negligence and we are likely to see an increase in goodwill payments made to the customers. In addition, fraud related litigation against the bank is increasing, be it where HSBC is banking the client or the fraudster.

In 2021, Operational Risk losses totalled EUR 19.5 million of which EUR 2.0 million were related to fraud compared to EUR 81.7 million in total in 2020 of which EUR 2.3 million related to fraud. See table on page 159 of the *2021 HSBC Continental Europe Universal Registration Document* concerning Operational risk losses: quantitative data starting from 2013 for full details.

The risk of external fraud remains high as the Covid-19 pandemic continues to disrupt the lives of individuals and organisations. Despite the roll out of vaccinations and easing of some lockdown measures, individuals and organisations are still having to adapt to the 'new normal'. Fraudsters continue to exploit the current state of uncertainty through the use of scams designed to steal money by deception (3rd party fraud).

Organisations are having to continually adapt their business models to survive and manage the impact from the ending of government backed support schemes.

There is increased risk of 1st party lending fraud through the misrepresentation of financial statements to secure additional lines of credit.

To date this has not been materialized in Continental Europe however significant work is being carried out to strengthen controls.

There is an increased likelihood of internal fraud due to announced sale of the France retail business.

No significant incidents specifically linked to the pandemic have been reported.

Risks related to financial statements

HSBC Continental Europe's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty. Probability: Unlikely/Impact: Medium.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements, assumptions and models are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to our results and financial position, based upon materiality and significant judgements and estimates, include impairment of loans and advances, goodwill, intangible and tangible asset impairment, valuation of financial instruments, deferred tax assets, provisions and interests in associates. The valuation of financial instruments measured at fair value can be subjective, in particular where models are used that include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments, future outcomes may differ materially from those assumed using information available at the reporting date. The effect of these differences on the future results of operations and the future financial position of HSBC Continental Europe may be material.

If the judgement, estimates and assumptions HSBC Continental Europe use in preparing its consolidated financial statements are subsequently found to be materially different from those assumed using information available at the reporting date, this could affect our business, prospects, financial condition and results of operations.

Areas of special interest

IBOR transition

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets. In response, regulators and central banks in various jurisdictions have convened national working groups ('NWGs') to identify replacement rates for these interbank offer rates ('IBORs') and, where appropriate, to facilitate an orderly transition to these rates.

Following the announcement by the UK's Financial Conduct Authority in July 2017 that it will no longer persuade or require banks to submit rates for London Interbank Offered Rate (LIBOR) after 2021, the NWGs for the affected currencies were tasked with facilitating an orderly transition of the relevant LIBORs to their chosen replacement rates.

The EUR NWG or 'EUR RFR WG' was also responsible for facilitating an orderly transition of the Euro Overnight Index Average (EONIA) to the Euro Short-Term Rate ('€STR') as a result of the determination that EONIA could not, as it was computed before 2nd October 2019, be made to comply with the European Benchmark Regulation ('BMR') and could therefore no longer be used beyond 2021. In March 2021 the interest rate benchmark administrator, ICE Benchmark Administration Limited ('IBA'), announced they will to continue to publish US dollar LIBOR for its most widely used settings until June 2023. As a result, our focus during 2021 was on the transition of legacy contracts referencing the EONIA and the LIBOR settings that demised from the end of December 2021.

During 2021, the IBOR transition programme (established in 2019 and lead locally by the Chief Risk Officer of HSBC Continental Europe) completed the development of IT near risk free replacement rate ('RFR') product capabilities, implemented supporting operational processes and actively engaged with our clients to discuss options for transition of their legacy contracts. In particular, the current accounts and deposits with interest conditions in demising rates of all clients of HSBC Continental Europe, managed in local tool ARCO, have all been migrated to replacement rates. The successful implementation of new processes and controls by the programme and transition of contracts away from IBORs continues to reduce the heightened financial and non-financial risks that HSBC is exposed to as a result of IBOR transition. The remaining risks as at year end 2021 are linked to:

- A small number of trades (loans and derivatives) referring rates demised on 31 December 2021 that have not been able to be transitioned to a new rate, so called 'tough legacy'.
- The extension of the publication of the USD LIBOR until 30 June 2023, hence the need to continue to manage the risks related to the contracts referring the USD LIBOR. In particular, there remains a risk that differences in US dollar LIBOR and the replacement rate, Secured Overnight Funding Rate ('SOFR'), create a basis that we need to actively manage through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of SOFR and its alternatives across assets and liabilities. Additionally, capital and liquidity risk could potentially present as the liquidity of SOFR continues to build, or as alternative rates are brought to market. This could also result in delays to transition of legacy US dollar contracts into 2023 and potentially heightened operational and conduct related risks at that point.
- The potential demise of the EURIBOR at a future stage (not planned in a foreseeable future).

Mitigating actions

On 'tough legacy', the programme relies on legislative relief as the regulators have designated default replacement rates that will apply to contracts where the replacement rate is not specified. For HSBC's loan book, our 2021 year-end reported exposure contains some contracts in benchmarks that demised at the end of 2021.

These contracts were actively transitioned through 2021 but have yet to reach their next interest rate payment date, and therefore still reference IBOR.

On 'USD LIBOR', the programme will pursue the work on USD LIBOR in 2022 and will leverage on the processes developed for the rates demised at end 2021. Our approach to transition of the remaining legacy IBOR contracts will differ by product and business area, but will be based on the lessons learned from the successful transition of those contracts which referenced IBORs which ceased at the end of 2021.

We will continue to communicate with our clients and investors in a structured manner and be client led in the timing and nature of transition.

For derivatives, we will continue to look to actively reduce our exposure by transitioning USD LIBOR trades ahead of the demise date of end June 2023. We will continue to work with our clients to determine their abilities to adhere and support them through the transition as required. Additionally, working with market participants, including clearing houses, to ensure we are able to transition contracts in large quantities as the US dollar LIBOR cessation date approaches.

For HSBC's loan book in US dollar LIBOR, we will have implemented new products, processes and updated our systems in readiness for transition.

The completion of an orderly transition from the US dollar LIBOR continues to be the programme's key objective through 2022 and 2023, with systems and processes in place to achieve this.

On EURIBOR, the EUR RFR WG has issued in May 2021 detailed guidelines to implement robust fallback clauses, explicitly referring the €STR as the replacement rate, in any new EURIBOR contracts. HSBC Continental Europe have written such clauses in liaison with HSBC Group Legal. Depending on the products, those clauses have already been or will be implemented early 2022 in the contract templates.

Financial instruments impacted by Ibor reforms

Financial instruments yet to transition to alternative benchmarks, by main benchmark

	USD Libor	GBP Libor	EONIA	Others[1]
	€m	€m	€m	€m
At 31 Dec 2021				
Non-derivative financial assets[2]				
Loans and advances to customers	**2,184**	**25**	**—**	**2**
Financial investments	**—**	**—**	**—**	**—**
Others	**4**	**—**	**—**	**—**
Total non-derivative financial assets	**2,188**	**25**	**—**	**2**
Non-derivative financial liabilities[2]				
Subordinated liabilities	**—**	**—**	**—**	**—**
Others	**248**	**—**	**—**	**—**
Total non-derivative financial liabilities	**248**	**—**	**—**	**—**
Derivative notional contract amount				
Foreign exchange	**24,258**	**7,040**	**—**	**2,434**
Interest rates	**234,130**	**25,396**	**1,895**	**41,076**
Others	**183**	**—**	**—**	**—**
Total derivative notional contract amount	**258,571**	**32,436**	**1,895**	**43,510**
At 31 Dec 2020				
Non-derivative financial assets[2]				
Loans and advances to customers	2,097	272	1	1
Financial investments	—	—	—	—
Others	1	—	—	—
Total non-derivative financial assets	2,098	272	1	1
Non-derivative financial liabilities[2]				
Subordinated liabilities	—	—	—	—
Others	229	—	2	—
Total non-derivative financial liabilities	229	—	2	—
Derivative notional contract amount				
Foreign exchange	18,844	4,497	—	16,023
Interest rates	313,349	40,683	192,127	29,804
Others	451	—	—	—
Total derivative notional contract amount	332,644	45,180	192,127	45,827

1 *Comprises financial instruments referencing other significant benchmark rates yet to transition to alternative benchmarks (EUR Libor, JPY Libor and CHF Libor).*

2 *Gross carrying amount excluding allowances for expected credit losses.*

The amounts in the above table relate to HSBC Continental Europe's main operating entities where there are material exposures impacted by IBOR reform, including France, the Netherlands, Spain and Ireland.

The amounts provide an indication of the extent of HSBC Continental Europe's exposure to the Ibor benchmarks that are due to be replaced.

Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest benchmark is expected to cease;
- are recognised on HSBC Continental Europe's consolidated balance sheet.

In March 2021, the administrator of Libor, IBA, announced that the publication date of most US dollar LIBOR tenors is extended from 31 December 2021 to 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021.

This change reduces the amounts presented at 31 December 2021 in the above table as some financial instruments included at 31 December 2020 will reach their contractual maturity date prior to the extended publication dates. Comparative data have not been re-presented.

Covid-19

The Covid-19 pandemic and its effect on the global economy have impacted our customers and our performance, and the future effects of the pandemic are uncertain. There remains a risk of subsequent waves of infection, as evidenced by recently emerged new, more transmissible variants of the virus, such as the Delta and Omicron variants. Renewed outbreaks in the fourth quarter of 2021 and in early 2022 emphasise the ongoing threat of Covid-19.

Global economic activity has significantly recovered in 2021, after the sharp fall seen in 2020 due to the Covid-19 crisis. This rebound has been driven by the reopening process observed in most of developed countries on the back of the significant progress in vaccination campaigns.

However, this reopening process has not been linear because different parts of the world have been hit during the year by successive waves of Covid-19 driven by new variants (Delta and Omicron in particular). Even if these waves had generally a more limited economic impact than in 2020, they still weighed on the global recovery, which has been unpredictable and unequal. French employment returned above its pre-pandemic level in the third quarter. Moreover, leading indicators for the fourth quarter have not signalled a marked collapse in economic activity, in spite of the emergence of the Omicron variant at the end of the year. There remains however a high degree of uncertainty associated with economic forecasts in the current environment.

There is a material risk of a renewed decline in economic activity and financial volatility if a new variant was to necessitate the imposition of broad lockdown measures. The Omicron variant has led to a sharp rise in new cases in the world, especially in Europe and in the US. However, if this Omicron wave proves eventually to be relatively short, as it was the case in South Africa, the impact on growth could be limited in the end. That said, risks of emergence of new variants more dangerous than Omicron cannot be excluded.

HSBC Continental Europe has initiated market-specific measures to support its personal and business customers through these challenging times. It has also actively participated in the governmental support schemes, mainly in France.

The rapid introduction of the government support schemes, as well as customer expectations, has led to heightened operational, conduct-related, fraud, and reputational risks as the bank had to adapt itself in a short period of time.

These risks are likely to be heightened further as and when those support schemes are unwound.

HSBC Continental Europe is focused upon avoiding any conduct risks that may arise from the implementation of decisions it has to make and also those that may be created if our customers find themselves in financial difficulties as a result of Covid-19.

As of today, no material operational losses have been recorded due to Covid-19.

Credit Risk

The review of counterparties under potential stress has been reinforced since the beginning of the Covid-19 crisis, with a focus on the early identification of cases that showed signs of credit worthiness deterioration.

After a significant increase in 2020 (EUR 67 million), Expected Credit Losses slightly decreased by EUR 6.4 million last year on Stages 1 & 2, reflecting the improvement of the forward looking macro-economic scenarios used to estimate the credit losses. Regarding the Stage 3 impairments, the charge in 2021 was limited (EUR 39.5 million vs. EU222 m in 2020), reflecting a reduction in number of new cases going into financial restructuring, as a consequence of governmental supporting measures.

For the Retail business, the portfolio has now recovered from the impact of the crisis with key risk indicators, such as delinquency rates and NPL now below pre Covid-19 levels. The lower NPLs is partly due to the continuous reduction of the litigation stock reflecting higher quality lending since 2012 and a high Crédit Logement penetration rate. The rest is due to numerous actions taken by the network in the last 18 months to resolve customer technical default in order to minimise the capital impact of the new definition of default and the new IRB model. The exception to the reducing key risk metrics is a marginal increase to the forbearance stock.

It is important to note that the Covid-19 impact has been strongly mitigated by the government support scheme including the State guaranteed loans and the moratoria provided by HSBC to its customer which represents 2.9 per cent of the total credit portfolio. 98 per cent have now reached maturity and have shown limited delinquency level, with only 0.9 per cent currently showing missed payments.

Expected Credit Losses

The impact of the outbreak on the long-term prospects of businesses is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges or operational losses. The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have materially impacted the performance of financial models. In particular, IFRS9 model performance has been impacted during the pandemic, as well as during the more recent recovery, which has increased reliance on management judgment in determining the appropriate level of ECL estimates. These models are driven by forecasts of economic factors such as GDP and unemployment, the extreme volatility of which has challenged the model outputs.

There has also been an unprecedented response from Governments to provide a variety of economic stimulus packages to support livelihoods, and the hardest hit business sectors could not be predicted by models.

For the retail business the portfolio improvements noted in the previous Credit Risk section have also led to a reduction in ECL with a release observed despite a high level of Forward Economic Guidance (FEG) held due to the model.

The expectation is for the underlying risk of the portfolio to continue to reduce due to the underlying quality of the portfolio and as the Covid-19 situation and economics improve.

HSBC Continental Europe operational resilience over the crisis, and coming challenges

The Covid-19 event continues to be effectively managed by HSBC Continental Europe. At the peak of the pandemic, around 95 per cent of the main offices employees worked successfully from home, with only exceptional roles continuing onsite. There have been no material operational issues experienced.

The key support provided by the IT infrastructure for home working has enabled teams to successfully adapt and maintain key deliverables during this challenging period. In July 2021, the new collective agreement was signed in France and working from home has become part of the 'new normal'. All the required changes to our processes have been approved, the exceptional processes have transitioned into the new business as usual processes. The majority of our employees have adopted the hybrid working mode in 2021.

The main risks identified during the crisis have been actively monitored

Operational Risk: The dependency on offshore locations, and our IT infrastructure is clear. The response from our offshore locations has been at the expected standards even with a further outbreak in India. It has created some delays in transformation initiatives but no major operational issues have been reported. We continue to work on an on-going basis to manage potential operational and concentration risks in partnership with our service center entities.

Upcoming challenges

The return to workplace plans are in place and in alignment with local governmental policies. In France the plan had been fully executed in 3Q2021, employees have been able to go back to work in line with the new collective agreement signed. These plans are still in different stages of implementation in several HSBC Continental Europe branches, as some of them are facing a new significant Covid-19 outbreak. The branches are still in a transition mode towards the implementation of the new ways of working, involving a mix of main office working, contingency site, and working from home). The new agreements are implemented locally, consulting union representatives and in line with the local governmental policies, ensuring the efficiency and sustainability of the new hybrid working mode.

Subsequent to changes in the Covid-19 health situation and the French government's announcements of 27 December 2021, HSBC Continental Europe implemented new measures to fight against the pandemic effective from 3 January 2022. As a result working from home has for 4 days a week is again the new norm for most staff.

Whilst the vaccination passport will be become effective on 24 January 2022, the other restrictions will be lifted progressively in February 2022 with an end to obligatory working from home from 2 February 2022. The employees will again be able to work in line with the new collective agreement signed from 2 February 2022 in France.

The Digital Business Services teams have continued to work with all Global Businesses to ensure resiliency under a range of operating scenarios and are continuing to actively monitor other risk levels across the business, particularly increased operational risk (staff capacity, largely mitigated by the rapid move to remote working), reputational risk, and fraud.

Further to our operational response to the pandemic, specific attention is given to the impact of Covid-19 across our key regulatory change programmes. The wider implications of potential material impacts are monitored, in order to ensure our Regulatory Compliance Risk profile remains reflective and accurate.

People risk

The exceptional Covid-19 crisis, has increased the people risk during lockdown periods imposed by authorities. These periods have generated more uncertainty, interrogations, anxiety, stress, and make difficult the work life balance with some employees feeling isolated, some others feeling overworked especially for those taking care of children while schools were closed.

The end of lockdown raised new concerns mainly linked with security in public transportation and with workplace conditions on site.

After an improvement in the situation during the summer period, a new surge in contamination in European countries is forcing governments to maintain vaccination campaigns, to impose new restrictions on entry into countries, during public events, as well as as partial containment measures/return to compulsory telework and to reinforce the wearing of masks.

All such elements lead to an increase in overall psycho-social (people) risks.

In order to mitigate those risks during this difficult period this year, several actions focused on employee/clients health and safety, were taken:

- Regular written communications, including authorities' messages and guidelines, sharing best practices and encouraging employees to keep in touch with their colleagues and the company overall sent to employees through different channels.
- Specific tool kit trainings on resilience and remote management to support managers and employees in the current difficult context.
- Awareness of HR teams and the HR Contact centre to answer employees' queries.
- Detailed bi-weekly reporting on Covid-19 cases in order to be informed on the evolving health situation within the company.
- To support or allow employees' vaccination in France, the Health and Safety team has been allowed to vaccinate employees on a voluntary basis.
- Limiting festive events at the end of the year to avoid the spread of the Covid Delta and Omicron variants.

More specifically, at the end of the lockdown, additional actions were taken to respond to certain employee's reluctance to return back to the office:

- Progressive return to the workplace with a maximum employee occupancy on site by phases (updated with the Health Authorities decisions) associated with remote working maintained as much as possible and flexibility on arrival/ departure hours;
- Covid-19 measures such as hydro-alcoholic gel available at entrance building/floor, enhanced daily desk cleaning, and masks provided to employees;
- Social distancing organised through floor markings, lifts with limited occupancy, serving packed lunch in company restaurant.

The lifting of the latest restrictions will also need to be managed.

Model Risk

The unprecedented character of the economic and financial disruptions created by the Covid-19 crisis is a challenge to modelling. Models, in the sense of quantitative methods that apply mathematical techniques and assumptions to process input data into quantitative estimates, are used by the bank for a wide range of purposes, including calculation of risk-weighted assets, loan impairment charges, fair valuation of some financial instruments, financial crime and fraud risk management, stress testing, and credit approvals.

All models are based on a fundamental assumption that there exist some stable relationships between various aspects of the modelled situation, or in other terms that the future will look like the past. Hence they cannot be trusted to provide wholly reliable predictions in an unprecedented state of affairs such as the deep recession and speedy recovery caused by the current health crisis.

Amongst the main impacted models are the Credit Risk models used for capital requirements and accounting provisions: they are based on lagged data and on past patterns which may not reflect the actual economic situation of borrowers or the prospects they face for the future. In particular, they may not properly take into account the benefit brought by the extremely substantial government interventions in the economy, or the potential negative effect of the progressive withdrawal of such measures.

Likewise, in Market Risk, value-at-risk ('VaR') models are based on an assumption of stable market conditions and therefore still assume a high probability of returning to the very high price volatility observed around March 2020 (for the models focusing on the last two years), resulting in stressed scenarios which may be too large for current conditions.

The bank is dealing with this situation by a strong focus on the performance of the models, and by instructing model users to apply professional judgement when considering model output. Some model redevelopments have been undertaken, in particular in the Credit Risk space, to enforce realistic predictions in case of extreme scenarios; models have started to progressively recover their predictive power as the pace of changes slowed down, noticed in particular with the reduction of Covid-19 model adjustments.

Market risk

Dedicated Covid-19 stress tests did not exhibit significant potential market risk losses on Trading portfolios. They showed a significant increase in the bank's Counterparty Credit Risk exposure but this was concentrated on collateralised or investment grade counterparties.

Stock markets have significantly recovered since March 2020 and the market panic of the peak of Covid-19 crisis. Inflation concerns have reappeared lately and pushed the main central banks to initiate the reduction of the accommodating policy introduced in 2020 to support the economic recovery.

Insurance

The company has been able to observe the impact of the pandemic on the death rate of its policyholders.

Relating to policyholders who have underwritten protection products (term life or creditor insurance), the impact of the pandemic is very low. Over the first nine months of 2021 only a few death claims related to Covid-19 were identified for credit insurance or term life policyholders. This observation is to be linked to the average age of the insured persons concerned (47 years).

The average age of policyholders who have underwritten savings products is significantly higher (67 years) and as a result there is a certain increase in the mortality rate in this population. The estimated increase of the mortality rate is about 10 per cent, driving this rate from 1.8 per cent to 2.0 per cent (estimated at end of September 2021). This increase has no material impact on the profitability of the company.

Capital and Liquidity

In line with the strengthening of the measures taken by the ECB in December 2020 allowing additional participation in the TLTRO and in order to help its customers meet their financing needs, HSBC Continental Europe has taken an additional EUR 1.06 billion TLTRO III in March 2021. However, HSBC Continental Europe repaid EUR 500 million in September 2021. In addition, and given the significant excess of liquidity in the market leading to leverage constraints for banks, the European Central Bank has announced the extension of the temporary exemption of certain Central Bank Exposures from the Leverage Ratio until March 2022.

Conclusion

There remain significant uncertainties in assessing the duration of the Covid-19 outbreak and its impact. The actions taken by the French and many other European Governments and the European Central Bank provide an indication of the potential severity of the downturn and post-recovery environment, which from a commercial, regulatory and risk perspective could be significantly different to past crises and persist for a prolonged period.

There is a remaining risk, despite the ongoing recovery, that economic activity remains below pre-pandemic norms for a prolonged period.

This could result in a materially adverse effect on our financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

We continue to monitor the situation closely, and given the novel and prolonged nature of the outbreak, additional mitigating actions may be required.

Climate-related risks

Climate change can have an impact across HSBC's profile through both transition and physical channels. Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding.

These have the potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for HSBC. Financial impacts could materialise if transition and physical risks impact the ability of our customers to repay their loans. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our climate ambition.

How climate risk can impact our customers

Climate change could impact our customers in two main ways. Firstly, customer business models may fail to align to a low-carbon economy, which could mean, for example, that new climate-related regulation may have a material impact on their business.

Secondly, extreme weather events or chronic changes in weather patterns may damage our customers' assets leaving them unable to operate their business or live in their home.

One of the most valuable ways we can help our customers navigate the transition challenges and to become more resilient to the physical impacts of climate change is through financing and investment. To do this effectively, we must understand the risks they are facing.

The table below summarises the key categories of transition and physical risk, with examples of how our customers might be affected financially by climate change and the shift to a low-carbon economy.

Climate risk		Main causes of financial impact on customers
Transition	Policy and legal	Mandates on, and regulation of, existing products and services. Litigation from parties who have suffered from the effects of climate change.
	Technology	Replacement of existing products with lower emission options.
	End-demand (market)	Changing consumer behaviour.
	Reputational	Increased scrutiny following a change in stakeholder perception of climate-related action or inaction.
Physical	Acute	Increased frequency and severity of weather events.
	Chronic	Changes in precipitation patterns rising temperatures.

Integrating climate into enterprise-wide risk management

Our approach to climate risk management is aligned to our Group-wide risk management framework and three line of defence model to ensure robust oversight of climate risk. This approach ensures the Board and senior management have visibility and oversight of our key climate risks.

Climate Risk Appetite

Our climate risk appetite, which is recommended and approved by the Board defines the measures we intend to take to enable our climate ambition and meet our commitments to regulators, investors and stakeholders. Our measures are focused on the oversight and management of our key climate risks – wholesale credit risk, retail credit risk, strategic risk (reputational), resilience risk and regulatory compliance. Our future ambition for our climate risk appetite is to:

- Adapt the RAS metrics to incorporate forward looking transition plans and net zero commitments.
- Expand risk metrics to consider other financial and non financial risks.
- Use enhanced scenario analysis capabilities.
- Broaden the scope of risks to include climate considerations in Liquidity Risk, Traded Risk, Legal Risk and Environmental Risk management.

Climate Risk Policies, Processes and Controls

We have integrated climate risk into the supporting policies, processes and controls for our key climate risks – wholesale credit risk, retail credit risk, strategic risk (reputational), resilience risk and regulatory compliance.

For example, we have updated our policy on product management and developed the first version of a climate risk scoring tool for our corporate portfolios. In addition, we have published and started to implement our new Thermal Coal Phase-Out Policy.

Climate Risk Governance and Reporting

Our key climate risks are reported and governed through our climate risk governance structure. Our Climate & ESG Risk Oversight Forum is responsible for the oversight, management and escalation of climate risks and is supported by a business specific forum, the Climate Business Council. Progress made on Climate-related and environmental risk are reported in a regular basis to the HSBC Continental Europe Risk Management Meeting and to the Board.

Climate Risk Programme

Our dedicated Climate Risk Programme continues to accelerate the development of our climate risk management capabilities. The key achievements in 2021 include:

- We delivered training to colleagues across the three lines of defence so they can understand climate risk as part of their role, and we also included an introduction to our climate ambition in our global mandatory training.
- The Group has developed a climate risk scoring tool for corporate customers for use in priority regions, which builds on our corporate transition questionnaire. The tool will be deployed in 2022 in HSBC Continental Europe.
- The Group introduced a risk appetite that monitors climate risk exposure at property level across the mortgage portfolio. This will be fully deployed within HSBC Continental Europe in 2022.

We will continue to enhance our climate risk management capabilities throughout 2022, this will include further roll-out of training, refining our risk appetite, enhancing our climate risk scoring tool and increasing the availability and quality of data so that new metrics can be developed to strengthen how we assess and manage climate risk and opportunities.

How climate risk can impact HSBC

In the table below, we have listed the impacts of climate risks that could affect our clients according to the typology recommended by the TCFD around transition risks (regulatory, technological, market and reputation) and physical risks (acute and chronic), depending on the time horizon.

Risk management framework

	Financial risks			Non-financial risk	
Risk type	**Wholesale credit**	**Retail credit**	**Strategic risk (reputational)**	**Resilience risk**	**Regulatory compliance risk**
Timescale	**All term periods**	**Medium–long term**	**All term periods**	**All term periods**	**Short–medium**
Transition risk drivers					
– policy and legal	●	●			●
– technology	●				
– end-demand (market)	●	●			
– reputational	●	●	●		
Physical risk drivers					
– acute – increased frequency and severity of weather events	●	●		●	
– chronic – changes in weather patterns	●	●		●	

Short term: less than one year; medium term: period to 2030; long term: period to 2050.

Our material banking and insurance risks

The material risk types associated with our banking and insurance manufacturing operations are described in the following tables.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: • **measured** as the amount that could be lost if a customer or counterparty fails to make repayments; • **monitored** within limits approved by individuals within a framework of delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance for risk managers and risk owners.
Treasury risk The risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, and including the financial risks arising from historic and current provision of pensions and other post employment benefits to staff and their dependants.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.	Treasury risk is: • **measured** through risk appetite and more granular limits, set to provide an early warning of increasing risk, minimum ratios of relevant regulatory metrics, and metrics to monitor the key risk drivers impacting treasury resources; • **monitored** and projected against appetites and by using operating plans based on strategic objectives together with stress and scenario testing; and • **managed** through control of resources in conjunction with risk profiles, strategic objectives and cashflows.
Market risk The risk that movements in market factors will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: • trading portfolios; and • non-trading portfolios.	Market risk is: • **measured and monitored** using VaR, stress testing and other measures, including the sensitivities of the portfolio value to the different market data; and • **managed** using risk limits approved by the RMM.
Resilience risk Resilience risk is the risk of our inability to provide critical services to our customers, affiliates, and counterparties as a result of sustained and significant operational disruption.	Resilience risk can arise from a myriad of failures or inadequacies in processes, people, systems or external events. Operational resilience threats have been exemplified in recent years. Examples of drivers of heightened resilience focus include: rapid technological innovation, changing behaviours of our consumers, increasing cyberthreats and attacks, crossborder dependencies, and third party relationships.	Resilience risk is: • Defining maximum acceptable impact tolerances; • Oversight of risk and control environment; • Continuous monitoring and thematic review.
Regulatory compliance risk The risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations, internal and external standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.	Regulatory compliance risk is part of operational risk, and arises from the risks associated with breaching our duties to customers and other counterparties, inappropriate market conduct and breaching other regulatory and good conduct standards.	Regulatory compliance risk is: • **measured** by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our Regulatory Compliance teams; • **monitore**d against our regulatory compliance risk assessments and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • **managed** by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.

Description of risks – banking operations (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Financial crime risk		
The risk that the letter and spirit of all relevant laws, codes, rules, regulations, internal and external standards related to Anti-Money Laundering, Sanctions and related to Fraud and Tax Fraud and/or Bribery & Corruption activities are not observed.	Financial Crime risk may arise when: • our services are used to transform the profits of crime and corruption into legitimate assets, or to finance terrorism; • the bank services are used to try and transfer money to sanctioned countries or individuals. • our employees are exposed to active, passive corruption and any form of corruption.	Financial Crime Risks are measured through a set of controls and metrics reflecting the effectiveness of the different processes and solutions in place to fight financial crime risks. These risks are monitored and managed by the Risk Management Committee.
Model risk		
The risk of business decisions being made on the basis of unreliable model output.	Model risk arises when business decision making includes some reliance on models, which are increasingly used across many areas of the bank in both financial and non-financial contexts. Models are characterised by predictive elements and are at best only a proxy for uncertain real-world behaviours and outcomes. Model risk can be caused by errors in methodology or design of models, by errors in how they are implemented in systems, by being used outside of the business context for which they were intended, or simply by failure to take into account the full complexity of real-world phenomena.	Model Risk is: • **Measured** by a regular independent model validation activity, resulting in identification of deficiencies (findings) and overall performance assessment. Aggregate metrics allow to measure the reliance on non-validated models or models with serious identified issues. • **Monitored** by ongoing performance controls from the first line of defence (model owner and user functions) and control activities from the second line of defence (Model Risk Management function). Targeted internal and external audits and regulatory reviews are also taken into account in the bank's surveillance of its model risk. • **Managed** by ensuring appropriate actions are taken to lower, mitigate or control identified risk for each model, by creating and communicating appropriate policies, procedures and guidance, and monitoring their delivery to ensure operational effectiveness.

Our insurance manufacturing subsidiaries are regulated separately from our banking operations. Risks in our insurance entities are managed using methodologies and processes that are subject to Group oversight.

Our insurance operations are also subject to some of the same risks as our banking operations, which are covered by the group's risk management processes.

Description of risks – insurance manufacturing operations

Risks	Arising from	Measurement, monitoring and management of risk
Financial risks		
Our ability to effectively match liabilities arising under insurance contracts with the asset portfolios that back them is contingent on the management of financial risks and the extent to which these are borne by policyholders.	Exposure to financial risks arises from: • market risk affecting the fair values of financial assets or their future cash flows; • credit risk; and liquidity risk of entities not being able to make payments to policyholders as they fall due.	Financial risk is: • **measured** (i) for credit risk, in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; (ii) for market risk, in terms of economic capital, internal metrics and fluctuations in key financial variables; and (iii) for liquidity, in terms of internal metrics, including stressed operational cash flow projections; • **monitored** through a framework of approved limits and delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design and asset liability matching and bonus rates.
Insurance risk		
The risk that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance risk is: • **measured** in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; • **monitored** though a framework of approved limits and delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.

Credit Risk

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 credit derivatives, and from the holding of debt securities.

Credit Risk Management

Of the risks in which we engage, credit risk generates the largest regulatory capital requirements.

The principal objectives of our credit risk management are:

- to maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;
- to both partner and challenge Global Businesses in defining, implementing, and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and mitigation.

Within the bank, the Credit Risk function is headed by the Chief Risk Officer who reports to the Chief Executive Officer, with a functional reporting line to the Regional Chief Risk Officer.

Its responsibilities include:

- formulating the local credit policy aligned where possible with group policies;
- validating HSBC Continental Europe's appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- undertaking an independent review and objective assessment of risk. Credit risk assesses each request except for the certain modest level proposals (for the Retail and Commercial bank) where detailed credit approval delegations have been established;
- monitoring the performance and management of portfolios across HSBC Continental Europe;
- vetting and controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;
- setting HSBC Continental Europe's policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the HSBC Continental Europe's capital base, and remain within internal and regulatory limits;
- maintaining and developing HSBC Continental Europe's risk rating framework and systems via the local Model Oversight Committees, which oversees the local risk rating model management for both wholesale and retail businesses;
- reporting on retail and wholesale portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results and recommendations to HSBC Continental Europe's Risk Committee and the Board; and
- acting on behalf of HSBC Continental Europe as the primary interface, for credit-related issues, with the *ACPR*, the ECB and rating agencies.

Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or are engaged in similar activities, or operate in the same geographical areas/industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions.

The group uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups.

These include portfolio and counterparty limits, approval and review controls, and stress testing.

Large Credit Exposure Policy – 'LCEP'

The LCEP sets out the policy of HSBC Continental Europe on controlling large risks, and it also forms part of the policy of HSBC Bank plc, HSBC Holdings plc and meets the requirements of the French banking regulator, the Autorité de Contrôle Prudentiel et de Résolution ('ACPR') and the European Central Bank ('ECB').

The purpose of the LCEP is to ensure that:

- HSBC Continental Europe adhere to the French regulatory requirements on large lending commitments;
- there is an appropriate framework procedure to monitor and control large commitments and concentrations of risk;
- the commitments by a bank to one individual borrower, or to a group of connected borrowers, should not become excessive in comparison to its capital base;
- excessive concentration and/or the combining of major exposures are excluded; and
- commitments to geographical areas or specific business sectors are strictly monitored to ensure that risky assets are diversified.

Concentration risk by counterparty

Risk exposure limits are classified into three categories:

- category A: all financing recognised on the balance sheet and all commitments such as guarantees, documentary credits and standby letters of credit;
- category B: off-balance sheet market risks such as currency and interest rate swaps taken at their maximum expected risk during the life of the exposure; and
- category S: (settlement risk): principally intraday settlement risk on payment commitments and foreign exchange business with customers or for their account.

Commitments to a single counterparty or group of counterparties, excluding central governments/central banks

The approved commitments (total of category A and B limits on one side and category S limits on the other) for any single counterparty or group of connected counterparties, after taking into account any risk mitigation/deduction techniques permitted under the regulations may not exceed 25 per cent of the HSBC Continental Europe consolidated capital.

It should be noted that all commitments, as defined above, which exceed 10 per cent of the HSBC Continental Europe consolidated capital require the approval by HSBC Bank plc independently of the credit approval authorities in place.

Furthermore, commitments (categories A and B) to financial institutions with:

- exposures with a maturity of more than one year;
- exposures to subsidiaries of financial institutions that are not financial institutions themselves; should not exceed 10 per cent of HSBC Continental Europe's consolidated capital.

A quarterly report on all single counterparty or groups of connected counterparties for which the HSBC Continental Europe commitments (the total of categories A and B on one hand, and category S on the other) exceed 10 per cent of its consolidated capital are submitted to the Risk Management Meeting, to the Risk Committee and to the Board of HSBC Continental Europe and to the various Risk committees in HSBC bank plc.

As at 31 December 2021, for HSBC Continental Europe, 16 groups individually exceeded 10 per cent of the net capital (31 December 2020: 6 groups).

Sectorial concentration risk

It is an HSBC Continental Europe principle to avoid excessive concentration in any business sector, and to take corrective measures if necessary. The Wholesale Credit Risk Department is responsible for supervising the compliance with this principle.

To do so, the Wholesale portfolio split by industry sector is monitored on a quarterly basis during the Risk Committee, the risk appetite by sector being limited to 10 per cent of HSBC Continental Europe's total exposure ('EAD').

In addition, some business sectors, such as Commercial Real Estate ('CRE') and Leveraged Buy Outs ('LBOs'), are governed by their own specific caps and business sector directives laid down by HSBC Continental Europe and/or the HSBC Group. The caps are monitored quarterly.

In addition, and depending on the macroeconomic environment, ad-hoc sector analysis can be undertaken to determine whether mitigating actions are required or not.

Geographical area concentration risk

The overall risk limits for countries and central governments/ central banks are determined by experience, current events and local knowledge as well as by the latest political, economic and market information.

For these types of counterparties, exposures (defined as the aggregate of category A and B limits) are not permitted to exceed 25 per cent of HSBC Continental Europe's Eligible Capital except in the following circumstances:

- exposures to central governments/central banks located in countries which qualify for a zero per cent risk weighting under the Standardised Approach;
- exposures to specific multilateral development banks (as quoted in the FCA and PRA Handbook Glossary) and specific international organisations (as quoted in CRR Art. 117 and 118) which qualify for zero per cent risk weighting;
- exposures to EEA States' central government and central banks denominated and funded in their domestic currency which also attract a zero per cent risk weighting (CRR Art. 114 (4)).

However, it should be noted that regardless of how the country with zero weighting is qualified, all requests are submitted for risk approval and the corresponding authorisations are recorded in the normal manner.

The exposure risk on countries, central governments and central banks is monitored by the HSBC Group Risk Department, which establishes all overall limits on the basis of the recommendations made by the Head of Wholesale Credit and Market Risk and relationship Managers in charge of central governments and central banks. Overall limits for single countries are revised at least annually or more frequently depending on circumstances. These limits are monitored continuously and adjustments may be made at any time.

A quarterly report on country risk exposure (total of limits to categories A and B) in excess of 10 per cent of HSBC Continental Europe's capital is given to Senior Management, the Risk Committee and the Board of Directors of HSBC Continental Europe.

Concerning 2021 and in accordance with its credit guidelines, HSBC Continental Europe's exposures to countries other than France was limited. Only 3 countries had commitments (category A and B) in excess of EUR 2 billion: Germany, Czech Republic and the Netherlands. The exposures for these three countries were principally comprised of 0 per cent weighted counterparties (articles 115 to 118 of the CRR).

The exposure to other countries, notably China, Russia or Turkey are not significant for HSBC Continental Europe.

Credit Risk Mitigation Techniques

Credit risk mitigants are taken into account in conformity with the regulations derived from the Basel agreements.

They fall into two main categories:

- collateral pledged, in favour of the Bank, is used to secure timely performance of a borrower's financial obligations;
- a guarantee is the commitment by a third party to substitute for the primary obligor in the event of default. By extension, credit insurance and credit derivatives (purchased protection) also fall into this category.

For the perimeter under the IRB approach, guarantees and collaterals are taken into account, provided they are eligible, by decreasing the LGD parameter corresponding to an increase in the recovery rate that applies to the transactions in the banking book. The value, taken into consideration, takes into account a haircut depending on the enforceable nature of the commitment and the anticipated fall in the market value of the pledged asset.

For the perimeter under the standardised approach, guarantees are taken into account, provided they are eligible, by applying the more favourable risk weight of the guarantor to a portion of the secured exposure adjusted for currency and maturity mismatches. Collateral is taken into account as a decrease in the exposure, after adjustment for any currency and maturity mismatches.

The assessment of credit risk mitigation effects, follow a methodology for each activity which is common to the entire HSBC Group.

Collateral

Collateral is divided into two categories: financial collateral and other collateral:

- financial collateral consists of cash amounts, life insurance contracts, mutual fund units, equities (listed or unlisted) and bonds;
- other diverse forms of collateral include real estate mortgages or ship mortgages, pledge of equipment or inventories, transfer of commercial receivables or any other rights to an asset of the counterparty.

To be eligible as part of the credit risk analysis, collateral must fulfil the following conditions:

- the pledge must be documented;
- the pledged asset should be able to be sold rapidly on a liquid secondary market;
- the Bank should have a regularly updated value of the pledged asset;
- the Bank should have reasonable comfort in the potential appropriation and realisation of the asset concerned.

Guarantee

Guarantee is the commitment by a third party to substitute for the primary obligor in the event of default. By extension, credit insurance and credit derivatives (purchased protection) also fall into this category. *Crédit Logement* can insure the risk of default of a borrower for property loans.

Guarantors are subject to the same credit risk assessment process as primary obligors.

Guarantees could be granted by the borrower's parent company or by other entities such as financial institutions. Hedging via credit derivatives, guarantees from public insurers for export financing or private insurers are other examples of guarantees.

The consideration of a guarantee consists of determining the average amount the Bank can expect to recover if a guarantee is called in following the default of a borrower. It will depend on the amount of the guarantee and on the enforceable nature of the commitment.

Optimising Credit Risk Mitigation via CDS

As part of its mandate of optimising credit risk management for Global Banking and Markets Portfolio Management ('PM') sets up hedges using credit derivatives, and primarily credit default swaps ('CDS'). These CDS are used as part of an active management policy, the main aim being to hedge migration and concentration risks and manage significant exposures. The underlying assets are loans made to large corporates provided by Global Banking and Markets (Banking). Considered as guarantees and treated under the Internal Ratings Based Approach, CDS hedges totalled EUR 199 million at 31 December 2021 and subject to eligibility, they have for effect of decreasing the risk-weighted assets of the bank.

Credit quality of financial instruments

The HSBC Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of losses.

For individually significant exposures, risk ratings are reviewed regularly and amendments are implemented promptly when necessary. Within the HSBC Group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models.

This risk rating system is based on the probability of default and loss estimates, in accordance with the internal rating methods required by the Basel II framework for calculating regulatory capital.

The five credit quality classifications defined below encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external rating, attributed by external agencies to debt securities.

Credit quality classification

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	External credit rating	Internal credit rating[1]	12-month Basel probability of default %	PD Band[2]	12-month probability of default %
Strong	BBB and above	A- and above	CRR 1 to CRR 2	0 – 0.169	band 1 to band 2	0.000 – 0.500
Good	BBB- to BB	BBB+ to BBB-	CRR 3	0.170 – 0.740	band 3	0.501 – 1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR 4 to CRR 5	0.741 – 4.914	band 4 to band 5	1.501 – 20.000
Sub-standard	B- to C	B- to C	CRR 6 to CRR 8	4.915 – 99.999	band 6	20.001 – 99.999
Credit-impaired	Default	Default	CRR 9 to CRR 10	100	band 7	100

1 *Customer risk rating ('CRR').*
2 *12-month point-in-time ('PIT') probability weighted probability of default ('PD').*

Quality classification definitions

- 'Strong': exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good': exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory': exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard': exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit Impaired': exposures have been assessed, individually or collectively, as impaired.

Distribution of financial instruments by credit quality

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	28,995	9,471	16,934	3,714	1,293	60,407	(795)	59,612
– personal[1]	20,169	1,630	1,041	26	372	23,238	(162)	23,076
– corporate and commercial	7,191	6,870	14,374	3,686	921	33,042	(631)	32,411
– non-bank financial institutions	1,635	971	1,519	2	–	4,127	(2)	4,125
Loans and advances to banks held at amortised cost	5,240	69	1,523	1	–	6,833	(1)	6,832
Cash and balances at central banks	37,714	235	114	–	–	38,063	–	38,063
Items in the course of collection from other banks	156	–	–	–	–	156	–	156
Reverse repurchase agreements – non-trading	19,840	524	123	–	–	20,487	–	20,487
Financial investments	–	–	7	–	–	7	–	7
Prepayments, accrued income and other assets	11,050	474	1,637	7	1	13,169	–	13,169
– endorsements and acceptances	5	–	1	–	–	6	–	6
– accrued income and other	11,045	474	1,636	7	1	13,163	–	13,163
Debt instruments measured at fair value through other comprehensive income[2]	12,793	1,779	193	–	–	14,765	(6)	14,759
Out-of-scope for IFRS 9								
Trading assets	10,713	287	615	–	–	11,615	–	11,615
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,226	289	134	–	–	2,649	–	2,649
Derivatives	37,171	1,327	984	151	1	39,634	–	39,634
Total gross amount on balance sheet	165,898	14,455	22,264	3,873	1,295	207,785	(802)	206,983
Percentage of total credit quality	79.8%	7.0%	10.7%	1.9%	0.5%	100%		
Loan and other credit related commitments	58,128	12,617	15,731	1,101	53	87,630	(15)	87,615
Financial guarantees	9,009	235	298	51	21	9,614	(11)	9,603
In-scope for IFRS 9: Irrecoverable loan commitments and financial guarantees	67,137	12,852	16,029	1,152	74	97,244	(26)	97,218
Loan and other credit related commitments	645	707	322	9	7	1,690	–	1,690
Performance and other guarantees	4,139	2,839	2,961	499	108	10,546	(29)	10,517
Out-of-scope for IFRS 9: Revocable loan commitments and non-financial guarantees	4,784	3,546	3,283	508	115	12,236	(29)	12,207
Total nominal amount off-balance sheet	71,921	16,398	19,312	1,660	189	109,480	(55)	109,425
At 31 Dec 2021	237,819	30,853	41,576	5,533	1,484	317,265	(857)	316,408

1 *Of which EUR 17,573 million EUR guaranteed loans by* Crédit Logement *as at 31 December 2021.*
2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Distribution of financial instruments by credit quality (continued)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	26,137	8,737	16,576	4,203	1,392	57,045	(820)	56,225
– personal[1]	19,305	1,606	1,444	100	430	22,885	(193)	22,692
– corporate and commercial	5,560	6,487	14,166	3,837	937	30,987	(605)	30,382
– non-bank financial institutions	1,272	644	966	266	25	3,173	(22)	3,151
Loans and advances to banks held at amortised cost	5,534	231	1,015	2	—	6,782	(1)	6,781
Cash and balances at central banks	29,405	—	104	—	—	29,509	(1)	29,508
Items in the course of collection from other banks	224	—	—	—	—	224	—	224
Reverse repurchase agreements – non-trading	20,174	1,288	60	—	—	21,522	—	21,522
Financial investments	—	—	6	—	—	6	—	6
Prepayments, accrued income and other assets	18,845	445	1,189	7	3	20,489	(1)	20,488
– endorsements and acceptances	7	—	—	—	—	7	—	7
– accrued income and other	18,838	445	1,189	7	3	20,482	(1)	20,481
Debt instruments measured at fair value through other comprehensive income[2]	14,612	2,321	205	—	—	17,138	(8)	17,130
Out-of-scope for IFRS 9								
Trading assets	12,778	80	96	—	—	12,954	—	12,954
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,454	313	170	—	—	2,937	—	2,937
Derivatives	52,376	3,329	458	271	41	56,475	—	56,475
Total gross amount on balance sheet	182,539	16,744	19,879	4,483	1,436	225,081	(831)	224,250
Percentage of total credit quality	81.1%	7.4%	8.8%	2.0%	0.5%	100.0%		
Loan and other credit related commitments	74,669	12,315	9,478	1,373	57	97,892	(21)	97,871
Financial guarantees	544	154	125	198	30	1,051	(9)	1,042
In-scope for IFRS 9: Irrecoverable loan commitments and financial guarantees	75,213	12,469	9,603	1,571	87	98,943	(30)	98,913
Loan and other credit related commitments	591	681	388	4	—	1,664	—	1,664
Performance and other guarantees	2,962	2,301	2,596	312	142	8,313	(43)	8,270
Out-of-scope for IFRS 9: Revocable loan commitments and non-financial guarantees	3,553	2,982	2,984	316	142	9,977	(43)	9,934
Total nominal amount off-balance sheet	78,766	15,451	12,587	1,887	229	108,920	(73)	108,847
At 31 Dec 2020	261,305	32,195	32,466	6,370	1,665	334,001	(904)	333,097

1 *Of which EUR 16,827 million EUR guaranteed loans by* Crédit Logement *as at 31 December 2020 .*
2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to customers at amortised cost	28,995	9,471	16,934	3,714	1,293	60,407	(795)	59,612
– stage 1	28,734	9,315	14,507	1,739	–	54,295	(46)	54,249
– stage 2	261	156	2,427	1,975	–	4,819	(97)	4,722
– stage 3	–	–	–	–	1,291	1,291	(650)	641
– POCI[3]	–	–	–	–	2	2	(2)	–
Loans and advances to banks at amortised cost	5,240	69	1,523	1	–	6,833	(1)	6,832
– stage 1	5,212	69	1,523	1	–	6,805	(1)	6,804
– stage 2	28	–	–	–	–	28	–	28
– stage 3	–	–	–	–	–	–	–	–
– POCI[3]	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	68,760	1,233	1,881	7	1	71,882	–	71,882
– stage 1	68,760	1,228	1,865	–	–	71,853	–	71,853
– stage 2	–	5	16	7	–	28	–	28
– stage 3	–	–	–	–	1	1	–	1
– POCI[3]	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	58,128	12,617	15,731	1,101	53	87,630	(15)	87,615
– stage 1	58,105	12,439	14,702	593	–	85,839	(5)	85,834
– stage 2	23	178	1,029	508	–	1,738	(5)	1,733
– stage 3	–	–	–	–	53	53	(5)	48
– POCI[3]	–	–	–	–	–	–	–	–
Financial guarantees[1]	9,009	235	298	51	21	9,614	(11)	9,603
– stage 1	9,009	235	285	23	–	9,552	(2)	9,550
– stage 2	–	–	13	28	–	41	(7)	34
– stage 3	–	–	–	–	21	21	(2)	19
– POCI[3]	–	–	–	–	–	–	–	–
Total on balance sheet and off balance sheet excluding debt instrument at FVOCI	**170,132**	**23,625**	**36,367**	**4,874**	**1,368**	**236,366**	**(822)**	**235,544**
Debt instruments at FVOCI[2]	12,793	1,779	193	–	–	14,765	(6)	14,759
– stage 1	12,733	1,762	188	–	–	14,683	(6)	14,677
– stage 2	60	17	5	–	–	82	–	82
– stage 3	–	–	–	–	–	–	–	–
– POCI[3]	–	–	–	–	–	–	–	–
At 31 Dec 2021	**182,925**	**25,404**	**36,560**	**4,874**	**1,368**	**251,131**	**(828)**	**250,303**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
3 *'POCI' Purchased or originated credit-impaired.*

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation (continued)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to customers at amortised cost	26,137	8,737	16,576	4,203	1,392	57,045	(820)	56,225
– stage 1	26,132	8,559	11,877	1,615	—	48,183	(36)	48,147
– stage 2	5	178	4,699	2,588	—	7,470	(111)	7,359
– stage 3	—	—	—	—	1,350	1,350	(661)	689
– POCI[3]	—	—	—	—	42	42	(12)	30
Loans and advances to banks at amortised cost	5,534	231	1,015	2	—	6,782	(1)	6,781
– stage 1	5,493	231	1,014	2	—	6,740	(1)	6,739
– stage 2	41	—	1	—	—	42	—	42
– stage 3	—	—	—	—	—	—	—	—
– POCI[3]	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	68,648	1,733	1,359	7	3	71,750	(2)	71,748
– stage 1	68,648	1,722	1,358	—	—	71,728	(1)	71,727
– stage 2	—	11	1	7	—	19	—	19
– stage 3	—	—	—	—	3	3	(1)	2
– POCI[3]	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	74,669	12,315	9,478	1,373	57	97,892	(21)	97,871
– stage 1	74,658	11,725	8,200	381	—	94,964	(5)	94,959
– stage 2	11	590	1,278	992	—	2,871	(12)	2,859
– stage 3	—	—	—	—	57	57	(4)	53
– POCI[3]	—	—	—	—	—	—	—	—
Financial guarantees[1]	544	154	125	198	30	1,051	(9)	1,042
– stage 1	544	154	103	122	—	923	(2)	921
– stage 2	—	—	22	76	—	98	(5)	93
– stage 3	—	—	—	—	29	29	(2)	27
– POCI[3]	—	—	—	—	1	1	—	1
Total on balance sheet and off balance sheet excluding debt instrument at FVOCI	175,532	23,170	28,553	5,783	1,482	234,520	(853)	233,667
Debt instruments at FVOCI[2]	14,612	2,321	205	—	—	17,138	(8)	17,130
– stage 1	14,557	2,263	190	—	—	17,010	(2)	17,008
– stage 2	55	58	15	—	—	128	(6)	122
– stage 3	—	—	—	—	—	—	—	—
– POCI[3]	—	—	—	—	—	—	—	—
At 31 Dec 2020	190,144	25,491	28,758	5,783	1,482	251,658	(861)	250,797

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
3 *'POCI' Purchased or originated credit-impaired.*

Impairment assessment

Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

Impaired loans – identification of loss events

The criteria used by HSBC Continental Europe to determine that a loan is impaired include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial distress procedure;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees; and
- a deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Impairment of loans and advances

For details of HSBC Continental Europe's policy concerning impairments of loans and advances, please refer to notes in the Consolidated Financial Statements.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39. The following tables show the allocation of loans and ECL allowance according to the kind of loans and nature of counterparties.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

	At 31 Dec 2021		At 31 Dec 2020	
	Gross carrying/ nominal amount	**Allowance/ provision for ECL[1]**	Gross carrying/ nominal amount	Allowance/ provision for ECL[1]
	€m	**€m**	€m	€m
Loans and advances to customers at amortised cost:	**60,407**	**(795)**	57,045	(820)
– personal[2]	**23,238**	**(162)**	22,885	(193)
– corporate and commercial	**33,042**	**(631)**	30,987	(605)
– non-bank financial institutions	**4,127**	**(2)**	3,173	(22)
Loans and advances to banks at amortised cost	**6,833**	**(1)**	6,782	(1)
Other financial assets measured at amortised costs:	**71,882**	**—**	71,750	(2)
– cash and balances at central banks	**38,063**	**—**	29,509	(1)
– items in the course of collection from other banks	**156**	**—**	224	—
– reverse repurchase agreements – non-trading	**20,487**	**—**	21,522	—
– financial investments[3]	**7**	**—**	6	—
– prepayments, accrued income and other assets[4]	**13,169**	**—**	20,489	(1)
Total gross carrying amount on balance sheet	**139,122**	**(796)**	135,577	(823)
Loans and other credit related commitments:	**87,630**	**(15)**	97,892	(21)
– personal	**1,325**	**—**	1,352	(1)
– corporate and commercial	**39,803**	**(12)**	41,102	(12)
– financial	**46,502**	**(3)**	55,438	(8)
Financial guarantees[5]:	**9,614**	**(11)**	1,051	(9)
– personal	**24**	**—**	26	—
– corporate and commercial	**9,102**	**(11)**	531	(9)
– financial	**488**	**—**	494	—
Total nominal amount off-balance sheet[6]	**97,244**	**(26)**	98,943	(30)
Total nominal amount on balance sheet and off-balance sheet	**236,366**	**(822)**	234,520	(853)

	Fair value	**Memorandum allowance for ECL[7]**	Fair value	Memorandum allowance for ECL[7]
	€m	**€m**	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**16,071**	**(6)**	19,139	(8)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Of which EUR 17,573 million guaranteed by* Crédit Logement *as at 31 December 2021 (2020: EUR 16,827 million).*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 178 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
4 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 178 includes both financial and non-financial assets.*
5 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
6 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
7 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2021

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost	54,295	4,819	1,291	2	60,407	(46)	(97)	(650)	(2)	(795)	0.1	2.0	50.3	100.0	1.3
– personal[3]	22,244	622	372	–	23,238	(12)	(14)	(136)	–	(162)	0.1	2.3	36.6	–	0.7
– corporate and commercial	27,969	4,152	919	2	33,042	(32)	(83)	(514)	(2)	(631)	0.1	2.0	55.9	100.0	1.9
– non-bank financial institutions	4,082	45	–	–	4,127	(2)	–	–	–	(2)	–	–	–	–	–
Loans and advances to banks at amortised cost	6,805	28	–	–	6,833	(1)	–	–	–	(1)	–	–	–	–	–
Other financial assets measured at amortised cost	71,853	28	1	–	71,882	–	–	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	85,839	1,738	53	–	87,630	(5)	(5)	(5)	–	(15)	–	0.3	9.4	–	–
– personal	1,300	24	1	–	1,325	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	38,161	1,591	51	–	39,803	(4)	(3)	(5)	–	(12)	–	0.2	9.8	–	–
– financial	46,378	123	1	–	46,502	(1)	(2)	–	–	(3)	–	1.6	–	–	–
Financial guarantees[4]	9,552	41	21	–	9,614	(2)	(7)	(2)	–	(11)	–	17.1	9.5	–	0.1
– personal	23	–	1	–	24	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	9,041	41	20	–	9,102	(2)	(7)	(2)	–	(11)	–	17.1	10.0	–	0.1
– financial	488	–	–	–	488	–	–	–	–	–	–	–	–	–	–
At 31 Dec 2021	228,344	6,654	1,366	2	236,366	(54)	(109)	(657)	(2)	(822)	–	1.6	48.1	100.0	0.3

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *Purchased or originated credit-impaired ('POCI').*
3 *Of which EUR 17,573 million guaranteed by* Crédit Logement *as at 31 December 2021.*
4 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due and are transferred from stage 1 to stage 2.

The disclosure below presents the ageing of stage 2 financial assets by those less than 30 and greater than 30 days past due and therefore presents those financial assets classified as stage 2 due to ageing (30 days past due) and those identified at an earlier stage (less than 30 days past due). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 days past due analysis at 31 December 2021

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*
		1 to 29 DPD[1]	*30 and > DPD[1]*		*1 to 29 DPD[1]*	*30 and > DPD[1]*		*1 to 29 DPD[1]*	*30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost	4,819	*32*	*262*	(97)	–	–	2.0	–	–
– personal	622	*27*	*20*	(14)	–	–	2.3	–	–
– corporate and commercial	4,152	*5*	*231*	(83)	–	–	2.0	–	–
– non-bank financial institutions	45	–	*11*	–	–	–	–	–	–
Loans and advances to banks at amortised cost	28	*25*	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	28	–	–	–	–	–	–	–	–

1 *Days past due ('DPD'). Up-to-date accounts in stage 2 are not shown in amounts presented above.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2020 (continued)

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost:	48,183	7,470	1,350	42	57,045	(36)	(111)	(661)	(12)	(820)	0.1	1.5	49.0	28.6	1.4
– personal[3]	21,648	807	430	—	22,885	(9)	(28)	(156)	—	(193)	—	3.5	36.3	—	0.8
– corporate and commercial	23,521	6,529	895	42	30,987	(25)	(82)	(486)	(12)	(605)	0.1	1.3	54.3	28.6	2.0
– non-bank financial institutions	3,014	134	25	—	3,173	(2)	(1)	(19)	—	(22)	0.1	0.7	76.0	—	0.7
Loans and advances to banks at amortised cost	6,740	42	—	—	6,782	(1)	—	—	—	(1)	—	—	—	—	—
Other financial assets measured at amortised cost	71,728	19	3	—	71,750	(1)	—	(1)	—	(2)	—	—	33.3	—	—
Loan and other credit-related commitments	94,964	2,871	57	—	97,892	(5)	(12)	(4)	—	(21)	—	0.4	7.0	—	—
– personal	1,318	32	2	—	1,352	(1)	—	—	—	(1)	0.1	—	—	—	0.1
– corporate and commercial	38,623	2,424	55	—	41,102	(3)	(5)	(4)	—	(12)	—	0.2	7.3	—	—
– financial	55,023	415	—	—	55,438	(1)	(7)	—	—	(8)	—	1.7	—	—	—
Financial guarantees[4]	923	98	29	1	1,051	(2)	(5)	(2)	—	(9)	0.2	5.1	6.9	—	0.9
– personal	25	—	1	—	26	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	448	54	28	1	531	(2)	(5)	(2)	—	(9)	0.4	9.3	7.1	—	1.7
– financial	450	44	—	—	494	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2020	222,538	10,500	1,439	43	234,520	(45)	(128)	(668)	(12)	(853)	—	1.2	46.4	27.9	0.4

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *Purchased or originated credit-impaired ('POCI').*
3 *Of which EUR 16.827 million guaranteed by* Crédit Logement *as at 31 December 2020.*
4 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Stage 2 days past due analysis at 31 December 2020 (continued)

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost	7,470	*48*	*31*	(111)	*(1)*	*(1)*	1.5	*2.1*	*3.2*
– personal	807	*38*	*29*	(28)	*(1)*	*(1)*	3.5	*2.6*	*3.4*
– corporate and commercial	6,529	*9*	*2*	(82)	—	—	1.3	—	—
– non-bank financial institutions	134	*1*	—	(1)	—	—	0.7	—	—
Loans and advances to banks at amortised cost	42	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	19	—	—	—	—	—	—	—	—

1 *Days past due ('DPD'). Up-to-date accounts in stage 2 are not shown in amounts presented above.*

Stage 2 Decomposition at 31 December 2021

The following disclosure presents the stage 2 decomposition of gross carrying amount and allowances for ECL for loans and advances to customers.

The table below discloses the reason why an exposure moved into stage 2 originally, and is therefore presented as a significant increase in credit risk since origination.

The Quantitative classification shows when the relevant reporting date PD measure exceeds defined quantitative thresholds for retail and wholesale exposures, as set out in Note 1.2 'Summary of significant accounting policies',on pages 182.

The Qualitative classification primarily accounts for CRR deterioration, watch & worry and retail management judgemental adjustments.

For further details on our approach to the assessment of significant increase in credit risk, see Note 1.2 'Summary of significant accounting policies on page 182.

Stage 2 Decomposition at 31 December 2021

	Gross carrying value				**Provision for ECL**				
Loans and advances to customers	**Personal**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	**Personal**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	**ECL Coverage % Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**%**
Quantitative[1]	**572**	**1,039**	**28**	**1,639**	**(12)**	**(19)**	**—**	**(31)**	**1.9**
Qualitative	**30**	**2,884**	**6**	**2,920**	**(2)**	**(64)**	**—**	**(66)**	**2.3**
30 days past due backstop	**20**	**229**	**11**	**260**	**—**	**—**	**—**	**—**	**—**
Total Stage 2	**622**	**4,152**	**45**	**4,819**	**(14)**	**(83)**	**—**	**(97)**	**2.0**

1 *Quantitative triggers includes 'one-month lag' and 'other reconciling amounts'.*

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk with respect to financial instruments, before taking account of any collateral held or other credit enhancements, unless such credit enhancements meet offsetting requirements defined in the accounting policies and principles.

For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the guarantee were called upon. For loan commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the maximum amount of the committed facilities.

Maximum exposure to credit risk

	At 31 Dec 2021		
	Maximum exposure €m	Offset €m	Net €m
Loans and advances to customers held at amortised cost	**59,612**	**—**	**59,612**
– personal[1]	23,076	—	23,076
– corporate and commercial	32,411	—	32,411
– non-bank financial institutions	4,125	—	4,125
Loans and advances to banks at amortised cost	**6,832**	**(234)**	**6,598**
Other financial assets held at amortised cost	**72,053**	**(2,120)**	**69,933**
– cash and balances at central banks	38,063	—	38,063
– items in the course of collection from other banks	156	—	156
– reverse repurchase agreements – non-trading	20,487	(2,120)	18,367
– financial investments	7	—	7
– prepayments, accrued income and other assets	13,340	—	13,340
Assets held for sale	**2**	**—**	**2**
Derivatives	**39,634**	**(39,544)**	**90**
Total on-balance sheet exposure to credit risk	**178,133**	**(41,898)**	**136,235**
Total off-balance sheet	**109,425**	**—**	**109,425**
– financial and other guarantees[2]	20,120	—	20,120
– loan and other credit-related commitments	89,305	—	89,305
Total on and off-balance sheet amount	**287,558**	**(41,898)**	**245,660**

1 *Of which EUR 17,573 million guaranteed by* Crédit Logement *as at 31 December 2021.*
2 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 30.*

Maximum exposure to credit risk

	At 31 Dec 2020		
	Maximum exposure €m	Offset €m	Net €m
Loans and advances to customers held at amortised cost	56,225	—	56,225
– personal[1]	22,692	—	22,692
– corporate and commercial	30,382	—	30,382
– non-bank financial institutions	3,151	—	3,151
Loans and advances to banks at amortised cost	6,781	(242)	6,539
Other financial assets held at amortised cost	71,817	(2,638)	69,179
– cash and balances at central banks	29,508	—	29,508
– items in the course of collection from other banks	224	—	224
– reverse repurchase agreements – non-trading	21,522	(2,638)	18,884
– financial investments	6	—	6
– prepayments, accrued income and other assets	20,557	—	20,557
Assets held for sale	3	—	3
Derivatives	56,475	(56,201)	274
Total on-balance sheet exposure to credit risk	191,301	(59,081)	132,220
Total off-balance sheet	108,847	—	108,847
– financial and other guarantees[2]	9,312	—	9,312
– loan and other credit-related commitments	99,535	—	99,535
Total on and off-balance sheet amount	300,148	(59,081)	241,067

1 *Of which EUR 16,827 million guaranteed by* Crédit Logement *as at 31 December 2020 .*
2 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 30.*

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Management judgemental adjustments are used to address late-breaking events, data and model limitations, model deficiencies and expert credit judgements.

Methodology

Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to HSBC's top and emerging risks.

In the second quarter of 2020, to ensure that the severe risks associated with the pandemic were appropriately captured, management added a fourth, more severe, scenario to use in the measurement of ECL. Starting in the fourth quarter of 2021, HSBC's methodology has been adjusted so that the use of four scenarios, of which two are Downside scenarios, is the standard approach for ECL calculation.

Three of these scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables.

The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent narrative-driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations. They may instead explore alternative stages of equilibrium, where economic activity moves permanently away from past trend.

Description of economic scenarios

The economic assumptions presented in this section have been formed by HSBC with reference to external forecasts specifically for the purpose of calculating ECL.

The global economy experienced a recovery in 2021, following an unprecedented contraction in 2020. Restrictions to mobility and travel eased across our key markets, aided by the successful rollout of vaccination programmes. Vaccinations have shown their effectiveness in lowering hospitalisations and deaths, enabling economies to reopen. The emergence of new variants that potentially reduce the efficacy of vaccines remains a risk.

Economic forecasts remain subject to a high degree of uncertainty in the current environment. The scenarios used to calculate ECL are described below.

The consensus Central scenario

HSBC’s Central scenario features a continued recovery in economic growth in 2022 as activity and employment gradually return to the levels reached prior to the outbreak of Covid-19.

Our Central scenario assumes that the stringent restrictions on activity, imposed across several countries and territories in 2020 and early 2021 are not repeated. The new viral strain that emerged late in 2021, Omicron, has only a limited impact on the recovery, according to this scenario. Consumer spending and business investment, supported by elevated levels of private sector savings, are expected to drive the economic recovery as fiscal and monetary policy support recedes.

The key features of our Central scenario are:

- Economic activity in our top markets continues to recover. GDP grows at a moderate rate and exceeds pre-pandemic levels across all our key markets in 2022.
- Unemployment declines to levels only slightly higher than existed pre-pandemic, with the exception of France where the downward trend in unemployment, related to structural changes to the labour market, resumes.
- Covid-19-related fiscal spending recedes in 2022 as fewer restrictions on activity allow fiscal support to be withdrawn. Deficits remain high in several countries as they embark on multi-year investment programmes to support recovery, productivity growth and climate transition.
- Inflation across many of our key markets remains elevated through 2022. Supply- driven price pressures persist through the first half of 2022 before gradually easing. In subsequent years, inflation quickly converges back towards central bank target rates.
- Policy interest rates in key markets rise gradually over our projection period, in line with economic recovery
- The West Texas Intermediate oil price is forecast to average $62 per barrel over the projection period..

In the longer-term, trend growth reverts back towards similar levels that as existed prior to the pandemic, suggesting that minimal long-term damage to economic prospects is expected. The Central scenario was first created with forecasts available in November, and subsequently updated in December to reflect material changes to forecasts.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus central scenario:

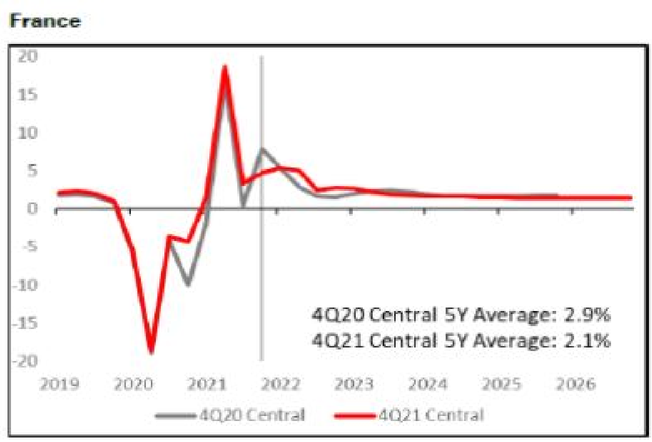
Central scenario 2022–2026

	France
	%
GDP growth rate	
2022: Annual average growth rate	**3.9**
2023: Annual average growth rate	**2.1**
2024: Annual average growth rate	**1.6**
5-year average	**2.1**
Unemployment rate	
2022: Annual average rate	**8.0**
2023: Annual average rate	**7.7**
2024: Annual average rate	**7.6**
5-year average	**7.7**
House price growth	
2022: Annual average growth rate	**4.9**
2023: Annual average growth rate	**4.6**
2024: Annual average growth rate	**4.0**
5-year average	**3.9**
Short-term interest rate	
2022: Annual average rate	**(0.5)**
2023: Annual average rate	**(0.3)**
2024: Annual average rate	**(0.1)**
5-year average	**(0.2)**
Probability	**60**

GDP growth: Comparison

The graphs comparing the respective Central scenarios in the fourth quarters of 2020 and 2021 reveal the extent of economic dislocation that occurred in 2020 and compare current economic expectations with those held a year ago.

France



Note: Real GDP shown as year-on-year percentage change.

The consensus Upside scenario

Compared with the Central scenario, the consensus Upside scenario features a faster recovery in economic activity during the first two years, before converging to long-run trend expectations.

The scenario is consistent with a number of key upside risk themes. These include the orderly and rapid global abatement of Covid-19 via successful containment and ongoing vaccine efficacy; de-escalation of tensions between the US and China; continued fiscal and monetary support; and smooth relations between the UK and the EU.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Upside scenario:

Consensus Upside scenario best outcome

	%	
GDP growth rate	**7.0**	**(2Q22)**
Unemployment rate	**6.6**	**(4Q23)**
House price growth	**6.8**	**(2Q22)**
Short-term interest rate	**(0.5)**	**(1Q22)**
Probability	**10**	

Note: Extreme point in the consensus Upside is 'best outcome' in the scenario, for example the highest GDP growth and the lowest unemployment rate, in the first two years of the scenario.

Downside scenarios

The progress of the pandemic and the ongoing public policy response continues to be a key source of risk. Downside scenarios assume that new strains of the virus result in an acceleration in infection rates and increased pressure on public health services, necessitating restrictions on activity. The reimposition of such restrictions could be assumed to have a damaging effect on consumer and business confidence.

Government fiscal programmes in advanced economies in 2020 and 2021 were supported by accommodative actions taken by central banks. These measures have provided households and firms with significant support. An inability or unwillingness to continue with such support or the untimely withdrawal of support present a downside risk to growth.

While Covid-19 and related risks dominate the economic outlook, geopolitical risks also present a threat. These risks include:.

- continued differences between the US and other countries with China, which could affect sentiment and restrict global economic activity; and
- potential disagreements between the UK and the EU, which may hinder the ability to reach a more comprehensive agreement on trade and services, despite the Trade and Cooperation Agreement averting a disorderly UK departure.

The consensus Downside scenario

In the consensus Downside scenario, economic recovery is considerably weaker compared with the Central scenario. GDP growth is expected to be lower, unemployment rates rise moderately and asset and commodity prices fall, before gradually recovering towards their long-run trend expectations. The scenario is consistent with the key downside risks articulated above. Further outbreaks of Covid-19, coupled with delays in vaccination programmes, lead to longer-lasting restrictions on economic activity in this scenario. Other global risks also increase and drive increased risk aversion in asset markets.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Downside scenario:

Consensus Downside scenario worst outcome

	%	
GDP growth rate	**0.5**	**(4Q23)**
Unemployment rate	**9.1**	**(3Q22)**
House price growth	**2.0**	**(4Q22)**
Short-term interest rate	**(0.5)**	**(1Q22)**
Probability	**15**	

Note: Extreme point in the consensus Downside is 'worst outcome' in the scenario, for example the lowest GDP growth and the highest unemployment rate, in the first two years of the scenario.

Downside 2 scenario

The Downside 2 scenario features a deep global recession. In this scenario, new Covid-19 variants emerge that cause infections to rise sharply in 2022, resulting in setbacks to vaccination programmes and the rapid imposition of restrictions on mobility and travel across some countries. The scenario also assumes governments and central banks are unable to significantly increase fiscal and monetary support, which results in abrupt corrections in labour and asset markets.

The following table describes key macroeconomic variables and the probabilities assigned in the Downside 2 scenario:

Downside 2 scenario worst outcome

	%	
GDP growth rate	**(4.6)**	**(4Q22)**
Unemployment rate	**10.0**	**(4Q23)**
House price growth	**(6.0)**	**(2Q23)**
Short-term interest rate	**0.4**	**(2Q22)**
Probability	**15**	

Note: Extreme point in the consensus Downside is 'worst outcome' in the scenario, for example the lowest GDP growth and the highest unemployment rate, in the first two years of the scenario.

Scenario weighting

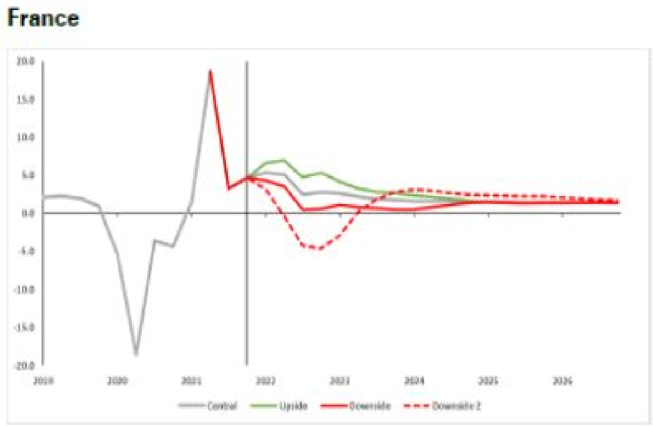
In considering economic uncertainty and assigning probabilities to scenarios, management has considered both global and country-specific factors. This has led management to assign scenario probabilities that are tailored to its view of uncertainty in individual markets.

To inform its view, management has considered trends in the progression of the virus in individual countries, the efficacy of vaccine roll-outs, the degree of current and expected future government support and connectivity with other countries. Management has also been guided by the policy response and economic performance through the pandemic, as well as the evidence that economies have adapted as the virus has progressed.

A key consideration in the fourth quarter of 2021 has been the emergence of the new variant, Omicron, in December 2021. The virulence and severity of the new strain, in addition to the continued efficacy of vaccines against it, was unknown when the variant first emerged. Management has therefore determined that uncertainty attached to forecasts has increased and has sought to reflect this in scenario weightings.

The UK and France face the greatest economic uncertainty of our key markets. The emergence of Omicron has exacerbated the rise in case rates and hospitalisations in both countries, necessitating the imposition of new restrictions. These increase uncertainty around economic growth and employment. Accordingly, the Central scenario is assigned a 60 per cent weight in both countries. The two Downside scenarios have been given a combined probability weighting of 30 per cent for both the UK and France.

The following graphs show the historical and forecasted GDP growth rate for the various economic scenarios in France:



Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. Despite a general recovery in economic conditions during 2021, the level of estimation uncertainty and judgement has remained high during 2021 as a result of the ongoing economic effects of the Covid-19 pandemic and other sources of economic instability, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts than before the pandemic. The key judgements are the length of time over which the economic effects of the pandemic will occur, and the speed and shape of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of roll-out and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together represent a high degree of estimation uncertainty, particularly in assessing Downside scenarios;
- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the Covid-19 pandemic and the recovery from those conditions. Modelled assumptions and linkages between economic factors and credit losses may underestimate or over-estimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues given muted default experience to date. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty

How economic scenarios are reflected in ECL calculations

Models are used to reflect economic scenarios on ECL estimates. As described above, modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2021, and judgemental adjustments were still required to support modelled outcomes.

We have developed globally consistent methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk.

These standard approaches are described below, followed by the management judgemental adjustments made, including those to reflect the circumstances experienced in 2021.

For our wholesale portfolios, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, we incorporate forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

For our retail portfolios, the impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of the underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

These models are based largely on historical observations and correlations with default rates. Management judgemental adjustments are described below.

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are short-term increases or decreases to the ECL at either a customer, segment or portfolio level to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge.

At 31 December 2021, management judgements were applied to reflect credit risk dynamics not captured by our models. The drivers of the management judgemental adjustments reflect the changing economic outlook and evolving risks across our geographies.

Where the macroeconomic and portfolio risk outlook continues to improve, supported by low levels of observed defaults, adjustments initially taken to reflect increased risk expectations have been retired or reduced.

However, other adjustments have increased where modelled outcomes are overly sensitive and not aligned to observed changes in the risk of the underlying portfolios during the pandemic, or where sector-specific risks are not adequately captured.

We have internal governance in place to monitor management judgemental adjustments regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

Management judgemental adjustments made in estimating the scenario-weighted reported ECL at 31 December 2021 are set out in the following table. The table includes adjustments in relation to data and model limitations, including those driven by late-breaking events and sector-specific risks and as a result of the regular process of model development and implementation.

Management judgemental adjustments to ECL at 31 December 2021

	Retail €m	Wholesale €m	Total €m
Low-risk counterparties (banks, sovereigns and government entities)	–	2	2
Corporate lending adjustments	–	24	24
Retail lending probability of default adjustments	–	–	–
Macroeconomic-related adjustments	13	–	13
Pandemic-related economic recovery adjustments	2	–	2
Other retail lending adjustments	7	–	7
Total	8	26	34

Management judgemental adjustments at 31 December 2021 were an increase to ECL of EUR 34 million, EUR 26 million for the wholesale portfolio and an increase to ECL of EUR 8 million for the retail portfolio.

During 2021, management judgemental adjustments reflected an evolving macroeconomic outlook and the relationship of the modelled ECL to this outlook and to late-breaking and sector-specific risks.

At 31 December 2021, wholesale management judgemental adjustments were an ECL increase of EUR 26 million, mainly composed of an adjustment of EUR 24 million adjustment on corporates taking into account the outcome of management judgements for high-risk and vulnerable sectors, supported by credit experts' input, quantitative analysis and benchmarks, and a EUR 2 million related to low-risk counterparties such as credit institutions where modelled credit factors did not fully reflect the underlying fundamentals of these entities. Considerations include potential defaults increase in some sectors due to the relax of government supporting schemes and late-breaking (idiosyncratic) developments.

At 31 December 2021, retail management judgemental adjustments were an ECL increase of EUR 8 million mainly to reflect the remaining uncertainty related to this portfolio, based on an ECL coverage consistent with pre pandemic levels.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100 per cent weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date.

There is a particularly high degree of estimation uncertainty in numbers representing more severe risk scenarios when assigned a 100 per cent weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macroeconomic factors in individual assessments. When compared with the performing portfolio, the defaulted obligors represent a significantly smaller portion of the wholesale exposure, even if accounting for the larger portion of the allowance for ECL.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macro-economic variables.

Wholesale and retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. The results tables exclude portfolios held by the insurance business and small portfolios, and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables. Additionally in both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are also not directly comparable with the current period, because they reflect different risk profiles relative to the consensus scenarios for the period end.

Wholesale analysis

IFRS9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers at 31 December 2021	€m
Reported ECL	117
Consensus Scenarios	
Central scenario	106
Upside scenario	93
Downside scenario	143
Downside 2 scenario	164
Gross carrying amount[2]	144,309

1 *ECL sensitivity includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
2 *Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying amounts but low ECL under all the above scenarios.*

Retail analysis

IFRS9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers at 31 December 2021	€m
Reported ECL	109
Consensus Scenarios	
Central scenario	106
Upside scenario	108
Downside scenario	109
Downside 2 scenario	111
Gross carrying amount[2]	21,787

1 *ECL sensitivies exclude portfolio utilising less complex modelling approaches.*
2 *ECL sensitivity includes only on-balance sheet financial instruments to which IFRS9 impairment requirements are applied.*

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees

The following disclosure provides a reconciliation of the Group's gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees. The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/ nominal amount and associated allowance for ECL. The net remeasurement of ECL arising from stage transfers represents the variation in ECL due to these transfers.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees[1]

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2021	**103,833**	**(42)**	**10,482**	**(130)**	**1,435**	**(667)**	**42**	**(12)**	**115,792**	**(851)**
Transfers of financial instruments	(868)	(38)	698	41	170	(3)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(4,679)	8	4,679	(8)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	3,842	(44)	(3,842)	44	–	–	–	–	–	–
– Transfers to Stage 3	(83)	–	(214)	7	297	(7)	–	–	–	–
– Transfers from Stage 3	52	(2)	75	(2)	(127)	4	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	24	–	(18)	–	(3)	–	–	–	3
New financial assets originated or purchased	34,508	(22)	–	–	–	–	–	–	34,508	(22)
Asset derecognised (including final repayments)	(11,587)	3	(826)	17	(239)	104	(1)	1	(12,653)	125
Changes to risk parameters – further lending/repayments	(3,966)	19	(3,733)	32	78	48	(33)	3	(7,654)	102
Changes to risk parameters – credit quality	–	3	–	(53)	–	(212)	–	–	–	(262)
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
Assets written off	–	–	–	–	(76)	76	(6)	6	(82)	82
Credit related modifications that resulted in derecognition	–	–	–	–	–	–	–	–	–	–
Foreign exchange	62	–	4	–	(2)	–	–	–	64	–
Others	39	–	(2)	1	–	–	–	–	37	1
Transfer-in	–	–	–	–	–	–	–	–	–	–
At 31 Dec 2021	**122,021**	**(53)**	**6,623**	**(110)**	**1,366**	**(657)**	**2**	**(2)**	**130,012**	**(822)**
ECL release/(charge) for the period		27		(22)		(63)		4		(54)
Recoveries										2
Others										1
Total ECL release/(charge) for the period										**(51)**

	At 31 Dec 2021		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	**130,012**	**(822)**	**(51)**
Other financial assets measured at amortised cost	71,882	–	–
Non-trading reverse purchase agreement commitments	34,472	–	–
Performance and other guarantees not considered for IFRS 9			17
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	**236,366**	**(822)**	**(34)**
Debt instruments measured at FVOCI	16,071	(6)	1
Total allowance for ECL/total income statement ECL charge for the period	**252,437**	**(828)**	**(33)**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees[1] (continued)

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2020	103,688	(50)	4,967	(57)	1,260	(592)	47	(11)	109,962	(710)
Transfers of financial instruments	(4,961)	(31)	4,284	38	677	(7)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(10,282)	14	10,282	(14)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	5,432	(46)	(5,432)	46	—	—	—	—	—	—
– Transfers to Stage 3	(116)	2	(687)	11	803	(13)	—	—	—	—
– Transfers from Stage 3	5	(1)	121	(5)	(126)	6	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	33	—	(26)	—	(1)	—	—	—	6
New financial assets originated or purchased	33,268	(19)	—	—	—	—	11	(1)	33,279	(20)
Asset derecognised (including final repayments)	(11,853)	3	(909)	11	(447)	138	(2)	1	(13,211)	153
Changes to risk parameters – further lending/repayments	(16,201)	14	2,159	9	72	134	(14)	(1)	(13,984)	156
Changes to risk parameters – credit quality	—	7	—	(103)	—	(465)	—	—	—	(561)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(124)	124	—	—	(124)	124
Credit related modifications that resulted in derecognition	—	—	—	—	(2)	1	—	—	(2)	1
Foreign exchange	(146)	1	(19)	—	(1)	1	—	—	(166)	2
Others	38	—	—	(2)	—	—	—	—	38	(2)
Transfer-in	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2020	103,833	(42)	10,482	(130)	1,435	(667)	42	(12)	115,792	(851)
ECL release/(charge) for the period		38		(109)		(194)		(1)		(266)
Add: Recoveries										2
Add/(less): Others										(6)
Total ECL release/(charge) for the period										(270)

	At 31 Dec 2020		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	115,792	(851)	(270)
Other financial assets measured at amortised cost	71,750	(2)	—
Non-trading reverse purchase agreement commitments	46,975	—	—
Performance and other guarantees not considered for IFRS 9			(17)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	234,517	(853)	(287)
Debt instruments measured at FVOCI	19,139	(8)	(2)
Total allowance for ECL/total income statement ECL charge for the period	253,656	(861)	(289)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Credit impaired loans

HSBC determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition.

The loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Renegotiated loans and forbearance

A range of forbearance strategies is employed in order to improve the management of customer relationships by avoiding default, of the customer where possible or the calling of guarantees obtained whilst maximising the recoveries of the amounts due. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other forms of loan modifications and re-ageing.

HSBC Continental Europe's policies and practices are based on criteria which seek to enable wherever possible that the repayment is likely to continue. These typically involve the granting of revised loan terms and conditions.

Loan forbearance is only granted in situations where the customer has showed a willingness to repay their loan and is expected to be able to meet the revised obligations.

The contractual terms of a loan may be modified for a number of reasons, including changes in market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. We classify and report loans on which such concessions have been granted as 'renegotiated loans' when their contractual payment terms have been modified as a result of serious concerns on the capacity of the borrower to repay their contractual outstandings.

Identifying renegotiated loans

Concessions, on loans made to customers, which do not affect the payment structure or basis of repayment, such as temporary or permanent waivers granted by the bank to take advantage of the non-respect of financial or security covenants, do not directly provide concessionary relief to customers in terms of their ability to service obligations as they fall due and are therefore not included in this classification.

For retail lending, our credit risk management policy sets out restrictions on the number and frequency of renegotiations, the minimum period an account must have been opened before any renegotiation can be considered and the number of qualifying payments that must be received. The application of this policy varies according to the nature of the market, the product and the management of customer relationships through the occurrence of exceptional events.

Credit quality classification of renegotiated loans

Under IFRSs, an entity is required to assess whether there is objective evidence that financial assets are impaired at the end of each reporting period. A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated.

A renegotiated loan is presented as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment.

The renegotiated loan will continue to be disclosed as impaired, for at least one year and until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

For retail lending the minimum period of payment performance required depends on the nature of loans in the portfolio, but is typically not less than 12 months. Where portfolios have more significant levels of forbearance activity the minimum repayment performance period required may be substantially more.

Renegotiated loans and recognition of impairment allowances

For retail lending, renegotiated loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the higher rates of losses often encountered in these segments.

In the corporate and commercial sectors, Renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessment. A distressed restructuring is classified as an impaired loan. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in renegotiated loans.

Renegotiated loans and advances to customers at amortised costs by stage allocation

	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI €m	Total €m
Gross carrying amount					
Personal	–	–	87	–	87
– first lien residential mortgages	–	–	54	–	54
– other personal lending	–	–	33	–	33
Wholesale	7	1,023	205	2	1,237
– corporate and commercial	7	1,023	205	2	1,237
– non-bank financial institutions	–	–	–	–	–
At 31 Dec 2021	7	1,023	292	2	1,324
Allowance for ECL					
Personal	–	–	(12)	–	(12)
– first lien residential mortgages	–	–	(8)	–	(8)
– other personal lending	–	–	(4)	–	(4)
Wholesale	–	–	(68)	(2)	(70)
– corporate and commercial	–	–	(68)	(2)	(70)
– non-bank financial institutions	–	–	–	–	–
At 31 Dec 2021	–	–	(80)	(2)	(82)

Renegotiated loans and advances to customers at amortised costs by stage allocation (continued)

	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Gross carrying amount					
Personal	—	—	68	—	68
– first lien residential mortgages	—	—	49	—	49
– other personal lending	—	—	19	—	19
Wholesale	4	155	135	43	337
– corporate and commercial	4	155	135	43	337
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2020	4	155	203	43	405
Allowance for ECL					
Personal	—	—	(13)	—	(13)
– first lien residential mortgages	—	—	(10)	—	(10)
– other personal lending	—	—	(3)	—	(3)
Wholesale	—	(4)	(62)	(12)	(78)
– corporate and commercial	—	(4)	(62)	(12)	(78)
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2020	—	(4)	(75)	(12)	(91)

Customer relief programmes

In response to the Covid-19 pandemic, governments around the world have introduced a number of support measures for both personal and wholesale customers.

The following table presents the number of customers and drawn loan values of customers under these schemes and schemes independently implemented by the Group at 31 December 2021.

Personal lending

Extant at 31 Dec 2021		HSBC Continental Europe	France	Others[1]
Market-wide schemes				
Number of customers granted mortgage customer relief		**—**	**—**	**—**
Drawn loan value of customers granted mortgage customer relief	€m	**—**	**—**	**—**
Number of customers granted other personal lending customer relief		**506**	**506**	**—**
Drawn loan value of customers granted other personal lending customer relief	€m	**38**	**38**	**—**
HSBC-specific measures				
Number of customers granted mortgage customer relief		**2**	**—**	**2**
Drawn loan value of customers granted mortgage customer relief	€m	**0.4**	**—**	**0.4**
Number of customers granted other personal lending customer relief		**13**	**13**	**—**
Drawn loan value of customers granted other personal lending customer relief	€m	**5**	**5**	**—**
Total personal lending to major markets under market-wide schemes and HSBC-specific measures				
Number of customers granted mortgage customer relief		**2**	**—**	**2**
Drawn loan value of customers granted mortgage customer relief	€m	**0.4**	**—**	**0.4**
Number of customers granted other personal lending customer relief		**519**	**519**	**—**
Drawn loan value of customers granted other personal lending customer relief	€m	**43**	**43**	**—**
Market-wide schemes and HSBC-specific measures – mortgage relief as a proportion of total mortgages	%	**—**	**—**	**0.1**
Market-wide schemes and HSBC-specific measures – other personal lending relief as a proportion of total other personal lending loans and advances	%	**0.2**	**0.2**	**—**

Wholesale lending

Extant at 31 Dec 2021		HSBC Continental Europe	France	Others[1]
Market-wide schemes				
Number of customers under market-wide measures		**4,866**	**4,854**	**12**
Drawn loan value of customers under market-wide schemes	€m	**3,475**	**3,385**	**90**
HSBC-specific schemes				
Number of customers under HSBC-specific measures		**31**	**30**	**1**
Drawn loan value of customers under HSBC-specific measures	€m	**484**	**480**	**4**
Total wholesale lending to major markets under market-wide schemes and HSBC – specific measures				
Number of customers		**4,897**	**4,884**	**13**
Drawn loan value	€m	**3,959**	**3,865**	**94**
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	**12.1**	**12.4**	**5.9**

1 *Others include HSBC Continental Europe Madrid Branch, Athens Branch, Poland Branch and HSBC Middle East Leasing partnership.*

Personal lending (continued)

Extant at 31 Dec 2020		HSBC Continental Europe	France	Others[1]
Market-wide schemes				
Number of customers granted mortgage customer relief		—	—	—
Drawn loan value of customers granted mortgage customer relief	€m	—	—	—
Number of customers granted other personal lending customer relief		512	512	—
Drawn loan value of customers granted other personal lending customer relief	€m	43	43	—
HSBC-specific measures				
Number of customers granted mortgage customer relief		21	—	21
Drawn loan value of customers granted mortgage customer relief	€m	3	—	3
Number of customers granted other personal lending customer relief		315	315	—
Drawn loan value of customers granted other personal lending customer relief	€m	95	95	—
Total personal lending to major markets under market-wide schemes and HSBC-specific measures				
Number of customers granted mortgage customer relief		21	—	21
Drawn loan value of customers granted mortgage customer relief	€m	3	—	3
Number of customers granted other personal lending customer relief		827	827	—
Drawn loan value of customers granted other personal lending customer relief	€m	138	138	—
Market-wide schemes and HSBC-specific measures – mortgage relief as a proportion of total mortgages	%	0.1	—	0.8
Market-wide schemes and HSBC-specific measures – other personal lending relief as a proportion of total other personal lending loans and advances	%	0.7	0.7	—

Wholesale lending (continued)

Extant at 31 Dec 2020		HSBC Continental Europe	France	Others[1]
Market-wide schemes				
Number of customers under market-wide measures		4,943	4,933	10
Drawn loan value of customers under market-wide schemes	€m	4,452	4,330	122
HSBC-specific schemes				
Number of customers under HSBC-specific measures		333	329	4
Drawn loan value of customers under HSBC-specific measures	€m	1,437	1,201	236
Total wholesale lending to major markets under market-wide schemes and HSBC-specific measures				
Number of customers		5,276	5,262	14
Drawn loan value	€m	5,889	5,531	358
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	21.0	21.5	16.0

1 *Others include HSBC Continental Europe Madrid Branch, Athens Branch, Poland Branch and HSBC Middle East Leasing Partnership.*

Since the start of the pandemic, HSBC Continental Europe has been taking exceptional measures to protect itself and its clients and participate in the prevention of an economic stress, in particular through a quasi-systematic six month deferral of loan repayments for its smaller Commercial Banking clients, with limited exclusions or restrictions. For its personal, professional and entrepreneur client base within the business line – Wealth and Personal Banking concessions were also provided through a 3-6 months' interest only repayment scheme. Granted concessions were assessed via individual assessment of the customer income/ expenditure, quality, past behaviour, and forward-looking approach. For the corporate segments, deferral of repayments has been considered on a case-by-case basis. At the beginning of the crises, new money financing has been granted to our customers, either state-guaranteed or not (depending on the individual situation). For Commercial Banking, 4,798 requests for *Pret Garanti d'Etat* have been granted as at end December 2021. For Large Corporate and Global Banking clients, the number of *PGEs* is smaller but the amount is larger.

For Retail and Wholesale, the government support mechanisms have been extended throughout 2021, with some amendments implemented on an ongoing basis to adjust those measures in reaction to the economic reality:

- According to the French Banking Federation ('FBF'), 16 per cent of the 697,000 companies having contracted a *PGE* have already reimbursed it fully.
- However, 3-4 per cent of companies having contracted *PGE* are struggling to repay, and could see their repayments rescheduled, particularly in tourism, event-business, travel, fitness etc.
- The Ministry of Economy has announced on 4 January 2022 that companies in difficulty will have the possibility of rescheduling their instalments up to 10 years (vs six years usually) and to postpone the first repayments by six months; this relates mainly to very small companies; whilst repayments should start in March 2022, the Ministry advises those companies in difficulty to liaise with the credit mediation to envisage one of the two options.

The portfolio has been resilient so far, but we believe that the relative good performance of this portfolio of French SME clients at this point in the cycle remains somewhat artificial, and that the financial situation might deteriorate for some of these clients as and when they will start repaying their PGE – which is additional debt that will have to be repaid – and depending on the pace at which the French government will stop the different support measures. The Retail portfolio has exhibited limited risk so far with regards to PGE.

Wholesale lending

These sections provide further detail on wholesale loans and advances to customers and banks.

Total wholesale lending for loans and advances to banks and customers by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	27,969	4,152	919	2	33,042	(32)	(83)	(514)	(2)	(631)
– Industrial	5,996	959	162	1	7,118	(5)	(10)	(73)	(1)	(89)
– Commercial, international trade	15,183	2,369	521	1	18,074	(15)	(47)	(351)	(1)	(414)
– Commercial real estate	4,279	712	51	—	5,042	(8)	(20)	(19)	—	(47)
– Other property-related	345	13	77	—	435	(1)	(1)	(33)	—	(35)
– Governments	1,067	—	—	—	1,067	—	—	—	—	—
– Others	1,099	99	108	—	1,306	(3)	(5)	(38)	—	(46)
Non-bank financial institutions	4,082	45	—	—	4,127	(2)	—	—	—	(2)
Loans and advances to banks	6,805	28	—	—	6,833	(1)	—	—	—	(1)
At 31 Dec 2021	**38,856**	**4,225**	**919**	**2**	**44,002**	**(35)**	**(83)**	**(514)**	**(2)**	**(634)**
Corporate and commercial	23,521	6,529	895	42	30,987	(25)	(82)	(486)	(12)	(605)
– Industrial	5,145	1,426	129	13	6,713	(5)	(14)	(79)	(4)	(102)
– Commercial, international trade	11,482	3,980	519	29	16,010	(10)	(47)	(321)	(8)	(386)
– Commercial real estate	4,251	876	55	—	5,182	(5)	(14)	(23)	—	(42)
– Other property-related	310	43	80	—	433	(1)	(1)	(35)	—	(37)
– Governments	1,106	—	—	—	1,106	(1)	—	—	—	(1)
– Others	1,227	204	112	—	1,543	(3)	(6)	(28)	—	(37)
Non-bank financial institutions	3,014	134	25	—	3,173	(2)	(1)	(19)	—	(22)
Loans and advances to banks	6,740	42	—	—	6,782	(1)	—	—	—	(1)
At 31 Dec 2020	33,275	6,705	920	42	40,942	(28)	(83)	(505)	(12)	(628)

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	47,202	1,632	71	—	48,905	(6)	(10)	(7)	—	(23)
Financial	46,866	123	1	—	46,990	(1)	(2)	—	—	(3)
At 31 Dec 2021	**94,068**	**1,755**	**72**	**—**	**95,895**	**(7)**	**(12)**	**(7)**	**—**	**(26)**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution (continued)

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	39,071	2,478	83	1	41,633	(5)	(10)	(6)	—	(21)
Financial	55,473	459	—	—	55,932	(1)	(7)	—	—	(8)
At 31 Dec 2020	94,544	2,937	83	1	97,565	(6)	(17)	(6)	—	(29)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral by stage

	2021		2020	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	€m	%	€m	%
Stage 1				
Not collateralised	**65,849**	**–**	57,962	–
Fully collateralised	**3,196**	**(0.1)**	2,733	(0.1)
LTV ratio:				
– less than 50%	**756**	**(0.1)**	815	(0.1)
– 51% to 75%	**1,671**	**(0.1)**	1,002	–
– 76% to 90%	**415**	**–**	515	–
– 91% to 100%	**354**	**–**	401	–
Partially collateralised (A):	**4,138**	**(0.1)**	3,759	(0.1)
– *collateral value on A*	***3,275***		*3,112*	
Total	**73,183**	**–**	64,454	–
Stage 2				
Not collateralised	**2,769**	**(1.5)**	4,673	(1.1)
Fully collateralised	**779**	**(1.0)**	707	(1.0)
LTV ratio:				
– less than 50%	**434**	**(1.0)**	368	(0.8)
– 51% to 75%	**40**	**(2.2)**	50	(2.0)
– 76% to 90%	**127**	**–**	23	–
– 91% to 100%	**178**	**(1.1)**	266	(1.1)
Partially collateralised (B):	**1,619**	**(1.0)**	2,818	(0.6)
– *collateral value on B*	***1,448***		*2,453*	
Total	**5,167**	**(1.3)**	8,198	(0.9)
Stage 3				
Not collateralised	**616**	**(66.1)**	620	(63.4)
Fully collateralised	**12**	**(50.3)**	14	(64.3)
LTV ratio:				
– less than 50%	**6**	**(48.9)**	7	(57.1)
– 51% to 75%	**3**	**(38.8)**	4	(75.0)
– 76% to 90%	**1**	**(82.9)**	2	(50.0)
– 91% to 100%	**2**	**(60.3)**	1	(84.0)
Partially collateralised (C):	**222**	**(25.4)**	214	(27.1)
– *collateral value on C*	***166***		*152*	
Total	**850**	**(55.3)**	848	(54.2)
POCI				
Not collateralised	**–**	**–**	39	(23.1)
Fully collateralised	**–**	**–**	–	–
LTV ratio:				
– less than 50%	**–**	**–**	–	–
– 51% to 75%	**–**	**–**	–	–
– 76% to 90%	**–**	**–**	–	–
– 91% to 100%	**–**	**–**	–	–
Partially collateralised (D):	**2**	**(89.1)**	3	(100.0)
– *collateral value on D*	***2***		*3*	
Total	**2**	**(89.1)**	42	(28.6)
At 31 Dec	**79,202**	**(0.7)**	73,542	(0.8)

Personal lending

Total personal lending

We provide a broad range of secured and unsecured personal lending products to meet individual customer needs.

Personal lending includes advances to individual customers for asset purchases such as residential property where the loans are secured by *Crédit Logement Guarantee* or by the assets being acquired. We also offer consumer lending products such as overdrafts and personal loans which are mainly unsecured.

Total personal lending for loans and advances to customers at amortised costs by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
First lien residential mortgages	**2,738**	**131**	**174**	**–**	**3,043**	**(1)**	**(3)**	**(67)**	**–**	**(71)**
Other personal lending	**19,506**	**491**	**198**	**–**	**20,195**	**(11)**	**(11)**	**(69)**	**–**	**(91)**
– second lien residential mortgages	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– guaranteed loans in respect of residential property[1]	**17,133**	**395**	**45**	**–**	**17,573**	**(7)**	**(2)**	**(1)**	**–**	**(10)**
– other personal lending which is secured	**1,835**	**58**	**60**	**–**	**1,953**	**(2)**	**(4)**	**(28)**	**–**	**(34)**
– credit cards	**296**	**21**	**13**	**–**	**330**	**(1)**	**(2)**	**–**	**–**	**(3)**
– other personal lending which is unsecured	**242**	**17**	**80**	**–**	**339**	**(1)**	**(3)**	**(40)**	**–**	**(44)**
– motor vehicle finance	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 Dec 2021	**22,244**	**622**	**372**	**–**	**23,238**	**(12)**	**(14)**	**(136)**	**–**	**(162)**

Total personal lending for loans and other credit-related commitments and financial guarantees[2] by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Personal lending										
At 31 Dec 2021	**1,323**	**24**	**2**	**—**	**1,349**	**—**	**—**	**—**	**—**	**—**

1 *Loans guaranteed by* Crédit Logement.
2 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Total personal lending for loans and advances to customers at amortised costs by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
First lien residential mortgages	2,914	173	196	—	3,283	(1)	(7)	(75)	—	(83)
Other personal lending	18,734	634	234	—	19,602	(8)	(21)	(81)	—	(110)
– second lien residential mortgages	—	—	—	—	—	—	—	—	—	—
– guaranteed loans in respect of residential property[1]	16,294	483	50	—	16,827	(2)	(4)	(4)	—	(10)
– other personal lending which is secured	1,904	97	98	—	2,099	(3)	(7)	(29)	—	(39)
– credit cards	265	20	15	—	300	(2)	(3)	(1)	—	(6)
– other personal lending which is unsecured	271	34	71	—	376	(1)	(7)	(47)	—	(55)
– motor vehicle finance	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2020	21,648	807	430	—	22,885	(9)	(28)	(156)	—	(193)

Total personal lending for loans and other credit-related commitments and financial guarantees[2] by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Personal lending										
At 31 Dec 2020	1,343	32	3	—	1,378	(1)	—	—		(1)

1 *Loans guaranteed by* Crédit Logement.
2 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, bridge loans and regulated loans. HSBC Continental Europe has specific LTV thresholds and debt-to-income ratios in place for this type of lending, which are compliant with the overall Group policy, strategy and risk appetite.

Collateral and other credit enhancements held

The most common method of mitigating credit risk for personal lending is to take collateral. For HSBC Continental Europe Retail a mortgage over the property is often taken to help secure claims. Another common form of security is guarantees provided by a third-party company; *Crédit Logement (a Société de Financement* regulated by the French Regulator *ACPR*). *Crédit Logement* guarantees 100 per cent of the amount of the residential real estate loan in case of default. Loans may also be made against a pledge of eligible marketable securities or cash.

The tables below show residential mortgage lending including off-balance sheet loan commitments by level of collateral. They provide a quantification of the value of fixed charges we hold over borrowers' specific assets in the event of the borrower failing to meet its contractual obligations.

The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date divided by the value of collateral.

The value of mortgage collateral is updated on a monthly basis using the notary price index ('INSEE'). In addition professional valuations are obtained for high value mortgage loans (>3m) annually. Valuations of financial collateral are updated on a daily basis for those portfolios held by HSBC Continental Europe and on annual basis for those held externally.

The collateral valuation excludes any cost adjustments linked to obtaining and selling the collateral and, in particular, loans shown as not collateralised or partly collateralised may also benefit from other forms of credit mitigants.

Personal lending: residential mortgage loans including loan commitments by level of collateral

	2021		2020	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	€m	%	€m	%
Stage 1				
Fully collateralised	**2,668**	**–**	2,825	–
LTV ratio:				
– less than 50%	**1,453**	**–**	1,406	–
– 51% to 60%	**537**	**–**	597	–
– 61% to 70%	**369**	**–**	443	–
– 71% to 80%	**220**	**–**	266	–
– 81% to 90%	**57**	**–**	78	–
– 91% to 100%	**32**	**–**	35	–
Partially collateralised (A):	**70**	**–**	89	–
LTV ratio:				
– 101% to 110%	**18**	**–**	23	–
– 111% to 120%	**9**	**–**	13	–
– greater than 120%	**43**	**–**	53	–
– *collateral value on A*	***68***		*84*	
Total	**2,738**	**–**	2,914	–
Stage 2				
Fully collateralised	**126**	**(2.2)**	161	(3.1)
LTV ratio:		**–**		
– less than 50%	**74**	**(1.8)**	93	(2.2)
– 51% to 60%	**19**	**(2.6)**	29	(3.4)
– 61% to 70%	**18**	**(2.7)**	22	(4.5)
– 71% to 80%	**11**	**(3.6)**	13	(7.7)
– 81% to 90%	**3**	**(4.8)**	3	–
– 91% to 100%	**1**	**(1.4)**	1	–
Partially collateralised (B):	**5**	**(5.4)**	12	(25.0)
LTV ratio:		**–**		
– 101% to 110%	**1**	**(11.7)**	4	(25.0)
– 111% to 120%	**1**	**(5.8)**	3	(33.3)
– greater than 120%	**3**	**(3.0)**	5	(20.0)
– *collateral value on B*	***5***	**–**	*11*	
Total	**131**	**(2.4)**	173	(4.6)
Stage 3		**–**		
Fully collateralised	**138**	**(36.0)**	124	(30.6)
LTV ratio:		**–**		
– less than 50%	**44**	**(25.3)**	50	(24.0)
– 51% to 60%	**19**	**(28.2)**	22	(31.8)
– 61% to 70%	**31**	**(23.4)**	28	(28.6)
– 71% to 80%	**9**	**(49.1)**	14	(42.9)
– 81% to 90%	**14**	**(43.2)**	5	(60.0)
– 91% to 100%	**21**	**(74.9)**	5	(40.0)
Partially collateralised (C):	**36**	**(47.8)**	72	(50.0)
LTV ratio:		**–**		
– 101% to 110%	**3**	**(34.6)**	11	(54.5)
– 111% to 120%	**3**	**(21.6)**	9	(66.7)
– greater than 120%	**30**	**(51.5)**	52	(46.2)
– *collateral value on C*	***7***	**–**	*39*	
Total	**174**	**(38.4)**	196	(37.8)
At 31 Dec	**3,043**	**(2.3)**	3,283	(2.5)

Counterparty Credit Risk

Counterparty Credit Risk exposure

Counterparty credit risk ('CCR') means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The Calculation of the Counterparty Credit Risk Exposure

HSBC Continental Europe applies the Internal Model Method ('IMM') of CRR Article 283 to determine the CCR exposures for OTC transactions.

SFTs are all excluded from the IMM, capital requirements for those products shall remain under the Title II chapter 4 method as allowed by CRR article 111(2).

Exchange Traded Derivatives ('ETDs') are also all excluded, the SA-CCR Method is then used.

Apart from that, a small portion of OTC products, the most complex ones, are also excluded and the SA-CCR Method is then used.

Framework/Limits and Monitoring

CCR management in HSBC Continental Europe is performed through different levels:

- Credit authority is held by Wholesale Credit Risk ('WCR') which is part of the Wholesale Credit and Market Risk ('WMR') sub-function, within the Risk function, either at local level or regional level or even Group level.
- Credit exposure monitoring is performed by Traded Credit Risk ('TCR'), inside Traded Risk which is part of the WMR sub-function. TCR is split into two teams: Traded Credit Risk Management ('TCRM') and Traded Credit Risk Control ('TCRC').

CCR exposures are monitored intraday at close of business by the TCR team. TCRC is responsible for capturing the exceptions in CCR systems and providing the first level of analysis. Any new breach is escalated to the TCRM who performs the second level analysis and escalates any unauthorised breach to the Relationship Manager, Front Office, Credit Officer and Senior Management. Main CCR limits/exposure movements are reported monthly in the GBM Risk Management Meeting.

Credit authority for CCR

HSBC Continental Europe WCR has a delegated approval authority for Corporates, funds, Insurers and Asset Managers. Depending on the level of the credit limit, credit approval might require concurrence from HSBC Bank plc WCMR and Group WCMR if above HSBC Continental Europe delegated approval authority.

Sovereigns, Intra-Group and Banks limits require HSBC Bank plc/ Group WCR concurrence whatever the amount of the limit.

HSBC Continental Europe TCRM, within HSBC Continental Europe Traded Risk, has no delegated credit approval authority.

All credit limits are reviewed at least once a year with:

- Traded risk portfolio and market environment analysis and recommendation performed by TCR.
- Risk profile assessment (internal rating), risk appetite update with limits validation performed by HSBC Continental Europe WCR (HSBC Bank plc WCR and Group WCR if required).

At the request of the local Relationship Manager and potentially the Global Relationship Manager, HSBC Continental Europe TCRM might recommend credit limit application to the relevant credit authority, in the context of Global Annual Review and for specific limit requests.

TCRM's recommendations highlight the main risk drivers and is based on the in depth analysis of the existing portfolio which includies views on contingent market risk and stress exposure and potentially include proposals to reduce the portfolio risk or mitigate proposed transaction.

Credit limit set up for CCR management

Two groups of limits are used at TCR level in the management of CCR:

- Counterparty-level limits;
- Portfolio-level traded credit risk limits.

A) Counterparty-level limits

- Group Credit Risk Capacity ('GCRC')

HSBC's aggregated credit appetite to the client is reflected in the GCRC. The GCRC is set during the Global Annual Review ('GAR') process. It is comprised of two elements, (i) limits (Cat A, Cat B, Cat S) which are already approved or proposed for approval in the CARM application; and (ii) the Unallocated Appetite ('UA') which represents an 'Indication of Appetite' for pipeline transactions or generic headroom that supports the Global Relationship Banker's ('GRB') business development strategy over the next 12 months.

- Category A ('Cat A') limits

Cat A facilities are those for which a credit limit is typically recorded at the full notional amount of the facility, the bank being actually or potentially at risk for 100 per cent of the committed amount.

Cat A facilities include on-balance sheet assets such as loans or lines of credit, as well as bond investments and trading lines. They may be either funded (loans, money market advances, bond trading) or unfunded such as guarantees and underwriting limits.

Cat A limits are set according to maturity bands.

- Category B ('Cat B') limits

Cat B limits cover key counterparty credit exposures arising from off-balance sheet products and are used for the monitoring of the PFE ('Potential Future Exposure'). Usage under Cat B represents the cost of replacement of the OTC contracts. In most instances, Cat B limits are set at entity level (known as the parent level) according to maturity bands. For Funds, risk is controlled at both an umbrella fund and individual fund level. Some complex corporates are mainly controlled at entity level but may have shared limits under the total relationship.

- Loan Look-Alike ('LLA') limits

LLA exposure is a parallel measure used to complement Cat B exposure measurement for a subset of exposures. The exposure measure is used for trades with characteristics analogous to a bank borrowing facility but for which exposure is primarily being monitored under a Cat B facility. Exposure is measured as the amount financed to the counterparty.

- Category S ('Cat S') limits

Cat S limits cover the risk that counterparties will fail to meet their delivery obligations, either through payment systems ('PSL'), or through settlement processes for treasury and securities transactions ('TSL'). Where possible and where systems allow, to mitigate settlement risk, settlement are made DVP through settlement service providers such as Euroclear or CLS.

- Fluctuation Risk ('FLU') limits

Commodity and cash securities trading give rise to counterparty credit exposure due to the potential price fluctuation in the pre-settlement period between undertaking of the transaction and settlement of the contract. This is a standard, albeit typically very short-dated, risk of a market price-contingent replacement cost whereby a counterparty defaults and is hence unable to honour its obligations. The FLU process is used by TCR to monitor this risk.

- Intra-Group limits

The processes for recording the limit for, and monitoring of, Intra-Group exposures are the same as for third party bank exposures.

B) Portfolio-level limits

TCR has established a number of portfolio-level limits to monitor risk at an aggregate level. These are formalised through a mandate shared with the Trading Heads of Global Banking & Markets ('GBM') and Markets Treasury, subject to annual review and ongoing monitoring routines.

The traded credit metrics covered by this mandate are:

- MtM limits

MtM exposure is the sum of positive MtM across all counterparties.

- Current Exposure ('CE') limits

CE is the sum of positive MtM net of collateral across all counterparties.

- Specific Wrong Way Risk ('SWWR') limits

SWWR transactions are self-referencing transactions where future exposure is expected to be high when the counterparty's probability of default is also high i.e. future exposure is positively and directly correlated with the counterparty probability of default and this relationship is driven by transaction(s) with the counterparty.

- General Wrong Way Risk ('GWWR') limits

GWWR occurs when a counterparty's probability of default is positively correlated with moves in general market risk factors such as foreign exchange rates. For example, the default probability of a counterparty may increase with a depreciation of the domestic currency if the depreciation affects their business model. Trading OTC contracts with such a counterparty which become more valuable to the bank as the currency depreciates represents GWWR.

- Default Fund ('DF') limits

DF limits covers HSBC's funded and unfunded DF contribution to CCPs.

- Initial Margin ('IM') limits

IM limits covers HSBC's IM contribution to CCPs.

- Stressed Mutualisation Loss limits

In addition to the usual counterparty credit risk exposure, HSBC also has additional exposure to CCPs via their rights to mutualise losses among Clearing Members.

In the context of monitoring risk through stress test, a stressed mutualisation loss is computed to assess the potential loss arising during a stress period from Clearing activities not measured through the stressed current exposure.

Mitigating actions for counterparty credit risk

In order to reduce its counterparty credit risk, HSBC Continental Europe has signed with the majority of its counterparties, close-out netting master agreements with a Credit Support Annexes ('CSA's). These ensure the regular revaluation of the collateral required and the payment of any corresponding margin calls.

They also permit, in case of a counterparty default, to apply close out netting across all outstanding transactions for all amounts due or to be paid. The collateral types permitted by HSBC Continental Europe are primarily cash or high quality and highly liquid assets.

The management of the collateral is subject to close monitoring. Specific controls exist to ensure the correct settlement/margin calls are made.

Credit Valuation Adjustment

Credit Valuation Adjustment ('CVA') means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty.

That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.

Institutions that hold internal model method approvals both for the specific risk and the counterparty credit risk can calculate the CVA capital charge under the advanced approach otherwise a standard approach have to be used.

HSBC Continental Europe applies the following methods to determine the CVA capital charge:

- The advanced approach on all eligible OTC derivatives.
- The standardised approach on all other transactions that are not in the IMM scope.

Credit Valuation Adjustment ('CVA') hedges

The responsibility for hedging and/or mitigating credit exposure lies within the remit of the Counterparty Exposure Management ('CEM') Desk. Since 2018, this desk trades CDS hedges which are eligible for the mitigation of the CVA own funds requirements. Only single name or index CDS' are used as hedging instruments. The monitoring of eligible hedges is made on a daily basis by Traded Risk.

Wrong-Way Risk

The standard methodology of measuring risk exposure assumes there is no correlation between a counterparty's creditworthiness and the replacement cost of transactions undertaken with that counterparty. Wrong-Way Risk occurs when exposure is materially adversely correlated with the credit quality of the counterparty and arises when default risk and credit exposure increase strongly together.

HSBC distinguishes two types of Wrong-Way Risk:

- General Wrong-Way Risk
- Specific Wrong-Way Risk

HSBC Continental Europe Traded Risk team uses a range of limits and procedures to monitor and control WWR on a daily basis, including requiring deal pre-approvals before undertaking WWR transactions outside pre-agreed guidelines.

Counterparty Risk and Covid-19 impact

In the early stage of Covid-19 pandemic, a review was performed on many sectors, concentrating notably on bank, Energy/Oil, Airline industries along with an Italy country review. Market risk stress testing was also a management tool used to review the HSBC Continental Europe portfolio. The risk appetite has been redefined.

During the development of Covid-19 crisis, vulnerable clients, sectors and countries have been defined. The risk management strongly focused on the collateral disputes and the failed payments. All noteworthy trades especially concerning the vulnerable sectors were escalated. HSBC Continental Europe participates to monthly ECB submissions 'covid template' reporting the EEPE impact of a Covid-19 scenario stress test.

Analysis of CCR exposure by approach ('CCR1')

	Replacement cost ('RC') €m	Potential future exposure ('PFE') €m	EEPE €m	Alpha used for computing regulatory exposure value	Exposure value pre-CRM €m	Exposure value post-CRM €m	Exposure value €m	RWAs €m
EU – Original Exposure Method (for derivatives)	–	–	–	1.4	–	–	–	–
EU – Simplified SA-CCR (for derivatives)	–	–	–	1.4	–	–	–	–
SA-CCR (for derivatives)	1,911	1,205	–	1.4	–	4,268	4,268	818
IMM (for derivatives and SFTs)			6,055	1.45	–	8,798	8,798	2,372
– *of which:* *securities financing transactions netting sets*	–	–	–	*1.45*	–	–	–	–
derivatives and long settlement transactions netting sets	–	–	*6,055*	*1.45*		*8,798*	*8,798*	*2,372*
from contractual cross-product netting sets	–	–			–			
Financial collateral simple method (for SFTs)	–	–	–		–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–		–	8,465	8,465	303
VaR for SFTs	–	–	–		–			
Total at 31 Dec 2021	**1,911**	**1,205**	**6,055**		**–**	**21,531**	**21,531**	**3,493**

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

		At 31 Dec 2021		At 31 Dec 2020	
		Exposure value €m	RWAs €m	Exposure value €m	RWAs €m
1	Total transactions subject to the Advanced method	4,828	415	1,601	307
2	(i) VaR component (including the 3× multiplier)		87		52
3	(ii) stressed VaR component (including the 3× multiplier)		328		255
4	Transactions subject to the Standardised method	1,238	478	438	86
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)			–	–
5	**Total transactions subject to own funds requirements for CVA risk[1]**	**6,066**	**893**	2,038	393

1 *Variance driven by the Regulation EU 2019/876 of the European Parliament ('CRR II') which came into force as of 30 June 2021 and by the UK's withdrawal from the EU (UK now treated as a non-EU third country).*

Treasury risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements. Treasury risk also includes the risk to our earnings or capital due to structural foreign exchange exposures and changes in market interest rates.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

Our objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support our business strategy, and meet our regulatory and stress testing-related requirements.

Our approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business in accordance with our strategy, meeting regulatory requirements at all times.

Our policy is underpinned by our risk management framework, our Internal Capital Adequacy Assessment Process ('ICAAP') and our Internal Liquidity Adequacy Assessment Process ('ILAAP'). The risk framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes.

These risks include credit, market, operational, pensions, structural foreign exchange and interest rate risk in the banking book.

The ECB is the supervisor of the bank and sets capital requirements and receives information on the capital and liquidity adequacy.

Governance

Capital and liquidity are the responsibility of the HSBC Continental Europe Executive Committee and are overseen by the HSBC Continental Europe Board. Treasury risks are managed through the Asset and Liability Management Committee ('ALCO').

Capital

Key metrics (KM1)

		At	
		31 Dec 2021	31 Dec 2020[1]
		€m	€m
	Available own funds (amounts)		
1	Common Equity Tier 1 ('CET1') capital	**5,742**	5,798
2	Tier 1 capital	**6,492**	6,548
3	Total capital	**7,898**	7,972
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	**47,795**	46,113
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)		
5	Common Equity Tier 1 ratio	**12.0**	12.6
6	Tier 1 ratio	**13.6**	14.2
7	Total capital ratio	**16.5**	17.3
	Additional own funds requirements to address risks other than the risk of excessive leverage (%) (as a		
EU-7a	Additional own funds requirements to address risks other than the risk of excessive leverage	**3.0**	3.0
EU-7b	– *of which: to be made up of CET1 capital (percentage points)*	***1.7***	*1.7*
EU-7c	– *of which: to be made up of Tier 1 capital (percentage points)*	***2.3***	*2.3*
EU-7d	Supervisory review and evaluation process ('SREP') own funds requirements	**11.0**	11.0
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount) (%)		
8	Capital conservation buffer	**2.5**	2.5
9	Institution-specific countercyclical capital buffer	**0.03**	0.02
11	Combined buffer requirement	**2.5**	2.5
EU-11a	Overall capital requirements	**13.5**	13.5
12	CET1 available after meeting the total SREP own funds requirements	**1.0**	1.6
	Leverage ratio		
13	Total exposure measure	**154,604**	154,908
14	Leverage ratio (%)	**4.2**	4.2
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount) (%)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage	**–**	
EU 14b	– *of which: to be made up of CET1 capital (percentage points)*	**–**	
EU-14c	Total SREP leverage ratio requirements (%)	**3.4**	
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure) (%)		
EU-14d	Leverage ratio buffer requirement	**–**	
EU-14e	Overall leverage ratio requirements	**3.4**	
	Liquidity Coverage Ratio ('LCR')		
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	**47,268**	39,264
EU-16a	Cash outflows – Total weighted value	**40,687**	32,834
EU-16b	Cash inflows – Total weighted value	**8,120**	5,314
16	Total net cash outflows (adjusted value)	**32,567**	27,520
17	Liquidity coverage ratio (%)	**145**	143
	Net Stable Funding Ratio ('NSFR')[2]		
18	Total available stable funding	**85,698**	
19	Total required stable funding	**65,759**	
20	NSFR ratio (%)	**130**	136

1 *Reflects the impacts of a restatement of the 31 December 2020 'negative amounts resulting from the calculation of expected loss amounts' from EUR (39) million to EUR (58) million.*
2 *Regulation EU 2019/876 of the European Parliament ('CRR II') came into force as of 30 June 2021. Comparative data for prior periods is not presented. Ratios for previous periods are partly based on interpretations.*

Approach and policy

HSBC Continental Europe's objective in managing the Bank's capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory requirements at all times.

HSBC Continental Europe manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2021, HSBC Continental Europe complied with the ECB regulatory capital adequacy requirements.

To achieve this, HSBC Continental Europe manages its capital within the context of an annual capital plan, which is approved by the Board and which determines the appropriate amount and mix of capital. Complementing this capital plan regular forecasts of capital, leverage, RWAs positions are produced throughout the year.

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

Each HSBC Continental Europe's subsidiary subject to individual regulatory capital requirements manages its own capital to support its planned business growth and meet its local regulatory requirements.

Capital Measurement

HSBC Continental Europe is supervised by the Joint Supervisory Team of the ECB and the *ACPR*. The ECB sets HSBC Continental Europe's capital requirements, in line with the regulatory framework.

The Basel III framework, like Basel II, is structured around three ‘pillars’: minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer (‘CCB’), Countercyclical Buffer (‘CCyB’), and other systemic buffers such as the Globally/Other Systematically Important Institutions (‘G-SII’/’O-SII’) buffer. CRR and CRD legislations implemented Basel III in the EU.

The capital management framework defines regulatory capital and economic capital as the two primary measures for the management and control of capital.

Capital measures:

- Regulatory capital is the capital which HSBC Continental Europe is required to hold in accordance with the rules established by regulators; and
- Economic capital is the internally calculated capital requirement to support risks to which HSBC Continental Europe is exposed and forms a core part of the internal capital adequacy assessment process.

Regulatory Requirements

As a result of the annual SREP, the European Central Bank (‘ECB’) set to 3.24 per cent the minimum capital requirement under Pillar 2 (‘P2R’) for HSBC Continental Europe from 1 March 2022 versus 3 per cent in 2021. Under CRD, the P2R should be held in the form of 56.25 per cent of CET1 and 75 per cent of Tier 1, as a minimum.

HSBC Continental Europe will be required to meet on a consolidated basis a minimum total capital ratio of at least 14.02 per cent from 1 March 2022 versus 13.53 per cent as of December 2021. The Overall Capital Requirement (‘OCR’) is composed of the 8 per cent minimum capital in respect of article 92.1 of the 575/2013 Regulation, the 2.50 per cent for the Capital Conservation buffer (CCB) in respect of article 129 of the 2013/36 Directive, the 0.03 per cent Countercyclical buffer (CCyB) as of December 2021, the 0.25 per cent Other Systematically Important Institution buffer (O-SII) in force since 1 January 2022 as per the decision from France's High Council for Financial Stability and the 3.24 per cent Pillar 2 requirement mentioned above from 1 March 2022.

The requirement in respect of Common equity tier 1 is 9.10 per cent from 1 March 2022 versus 8.72 per cent as of December 2021, excluding Pillar 2 guidance (‘P2G’).

Regulatory Capital

HSBC Continental Europe’s capital base is divided into three main categories, namely Common Equity Tier 1, Additional Tier 1 and Tier 2, depending on their characteristics.

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 as well as negative amounts resulting from the calculation of expected loss amounts under IRB.

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

Tier 2 capital comprises eligible subordinated debt and any related share premiums.

Holdings of Tier 2 capital of financial sector entities are deducted.

Leverage Ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based metric, to supplement risk-based capital requirements. It aims to constrain the build-up of excessive leverage in the banking sector, introducing additional safeguards against model risk and measurement errors.The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total on- and weighted off-balance sheet exposures, allowing the exclusions of certain exposures and the netting of exposures on certain market instruments. In addition, as of December 2021 HSBC Continental Europe exclude certain central bank exposures from the leverage exposure measure in application of the exemption granted by the ECB owing to the exceptional macroeconomic circumstances which will expire on 31 March 2022.

This ratio has been implemented in the EU for reporting and disclosure purposes and has been set as a binding requirement since June 2021.

Pillar 3 market discipline

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. HSBC Continental Europe’s *Pillar 3 Disclosure at 31 December 2021* is published on HSBC’s website, www.hsbc.com, under ‘Investors’ section.

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

HSBC Continental Europe became subject to MREL requirements for the first time on 30 March 2020 following reception of decision from the *Autorité de Contrôle Prudentiel et de Résolution (‘ACPR’)*.

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

In order to meet the internal TLAC requirements, HSBC Continental Europe issued internal TLAC eligible Senior Non-Preferred bonds in June 2021 and December 2021.

Overview of changes of own funds ratios

Composition of regulatory own funds ('CC1')[1]

		At	
		31 Dec 2021	31 Dec 2020
Ref*		**€m**	€m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**2,628**	2,628
	– share premium account	**2,137**	2,137
2	Retained earnings	**2,458**	3,482
3	Accumulated other comprehensive income (and other reserves)	**1,564**	1,586
5	Transitional adjustments due to additional minority interests	**—**	—
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**239**	(1,052)
6	**Common equity tier 1 capital before regulatory adjustments**	**6,890**	6,645
	Common equity tier 1 capital: regulatory adjustments		—
7	Additional value adjustments	**(200)**	(174)
8	Intangible assets (net of related deferred tax liability)	**(79)**	(85)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	**(114)**	—
11	Fair value reserves related to gains or losses on cash flow hedges	**(37)**	(69)
12	Negative amounts resulting from the calculation of expected loss amounts	**(55)**	(58)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**77**	81
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	**(740)**	(541)
22	Amount exceeding the 17.65% threshold	**—**	—
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**(1)**	—
28	**Total regulatory adjustments to Common Equity Tier 1 ('CET1')**	**(1,149)**	(847)
29	**Common Equity Tier 1 ('CET1') capital**	**5,742**	5,798
	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		—
42a	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**—**	—
43	**Total regulatory adjustments to Additional Tier 1 ('AT1') capital**	**—**	—
44	**Additional Tier 1 (AT1) capital**	**750**	750
45	**Tier 1 capital (T1 = CET1 + AT1)**	**6,492**	6,548
	Tier 2 ('T2') capital: instruments		—
46	Capital instruments and the related share premium accounts	**1,876**	1,876
51	**Tier 2 capital before regulatory adjustments**	**1,876**	1,876
	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)
EU-5	Other regulatory adjustments to T2 capital	**—**	18
57	**Total regulatory adjustments to tier 2 capital**	**(470)**	(452)
58	**Tier 2 capital**	**1,406**	1,425
59	**Total capital (TC = T1 + T2)**	**7,898**	7,972
60	Total risk-weighted assets	**47,795**	46,113
	Capital ratios and buffers		
61	Common equity tier 1 (%)	**12.0**	12.6
62	Tier 1 (%)	**13.6**	14.2
63	Total capital (%)	**16.5**	17.3
64	Institution CET1 overall capital requirement Institution (%)	**2.5**	2.5
65	– capital conservation buffer requirement (%)	**2.5**	2.5
66	– countercyclical buffer requirement (%)	**0.03**	0.02
68	Common equity tier 1 available to meet buffers (%)	**—**	—
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**143**	124
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	**648**	622
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability)	**88**	125

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

1 *Reflects the impacts of a restatement of the 31 December 2020 'negative amounts resulting from the calculation of expected loss amounts' from EUR (39) million to EUR (58) million.*

The main movements of the own funds are detailed on the Note 1 'significant events during the year' of the HSBC Continental Europe's *Universal Registration Document 2021*.

RWAs by risks types

	Risk Weighted Assets		Capital required[1]	
	2021	2020	**2021**	2020
	€m	€m	**€m**	€m
Credit risk[2]	**36,019**	36,431	**2,882**	2,914
Counterparty credit risk	**4,435**	3,736	**355**	298
Market risk	**3,784**	2,663	**303**	213
Operational risk	**3,557**	3,283	**285**	263
At 31 Dec	**47,795**	46,113	**3,824**	3,688

1 *'Capital required', here and in all tables where the term is used, represents the Pillar 1 capital charge at 8 per cent of RWAs.*
2 *'Credit Risk', here and in all tables where the term is used, excludes counterparty credit risk.*

RWA movement by global business by key driver

	Total RWA
	€m
RWAs at 1 January 2021	**46,113**
Asset size	**945**
Asset quality	**159**
Model updates	**591**
Methodology and policy	**(13)**
Foreign exchange movement	**—**
Total RWA movement	**1,682**
RWAs at 31 Dec 2021	**47,795**
RWAs by global business	
Markets & Securities Services	**8,404**
Global Banking	**11,379**
Global Banking and Markets Others	**1,581**
Commercial Banking	**15,062**
Wealth and Personal Banking	**9,804**
Corporate Centre	**1,565**

RWA increased by EUR 1,682 millions, mainly driven by business activity increased in GBM and by model updates in MSS Business.

Leverage Ratio at 31 December[1]

	At	
	31 Dec 2021	31 Dec 2020
	€m	€m
Tier 1 Capital	**6,492**	6,548
Leverage Exposure	**154,604**	154,908
Leverage ratio %	**4.2**	4.2

1 *Reflects the impacts of a restatement of 31 December 2020 'negative amounts resulting from the calculation of expected loss amounts' from EUR (39) million to EUR (58) million.*

Tier 1 capital reduced from EUR 6,548 millions to EUR 6,492 millions during 2021. The Leverage exposure decreased from EUR 154.9 billions to EUR 154.6 billions.

Liquidity and funding risk management

Liquidity and funding risk management framework

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

HSBC Group has an internal liquidity and funding risk management framework which aims to allow it to withstand liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is undertaken in compliance with the Group's framework and with practices and limits set through by the RMM and approved by the Board.

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

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

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. In this context, liquidity and funding risk is managed by HSBC Continental Europe on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed.

HSBC Continental Europe's policy is it should be self-sufficient in funding its own activities.

The Liquidity coverage ratio ('LCR'),the Internal Liquidity Metric (ILM) and the Net stable funding ratio ('NSFR') are key components of the Liquidity and Funding Risk Framework.

Liquidity and funding risk profile

Liquidity coverage ratio

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

At 31 December 2021, HSBC Continental Europe remained within the LCR risk limits established by the Board and applicable under the Group's liquidity and funding risk framework.

The following table displays the LCR levels for HSBC Continental Europe consolidated on a European Commission LCR Delegated Regulation basis.

Liquidity coverage ratio

	At	
	31 Dec 2021	31 Dec 2020
	%	%
HSBC Continental Europe	**145**	143

Net stable funding ratio

The Net Stable Funding Ratio ('NSFR') requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR over the longer term.

The HSBC Continental Europe calibration of NSFR is based on the CRR II (Regulation EU 2019/876) since June 2021.

These calculations require various interpretations of the texts, and therefore HSBC Continental Europe's NSFR may not be directly comparable with the ratios of other institutions.

At 31 December 2021, HSBC Continental Europe was within the NSFR risk limits established by the Board and applicable under the liquidity and funding risk framework.

The table below displays the NSFR levels for HSBC Continental Europe consolidated on its interpretation of CRR II.

Net stable funding ratio

	At	
	31 Dec 2021	31 Dec 2020
	%	%
HSBC Continental Europe	**130**	136

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is undermined if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists.

In addition to this, HSBC Continental Europe is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

These risks are managed by specific and dedicated ALCO limits.

Liquid assets

The table below shows the unweighted liquidity value of assets categorised as liquid, which is used for the purposes of calculating the LCR metric. This reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Liquid assets

	Estimated liquidity value at	
	31 Dec 2021	31 Dec 2020
	€m	€m
Level 1	**46,562**	38,968
Level 2a	**536**	297
Level 2b	**170**	—

Level 1 liquid assets include HSBC Continental Europe balances with its central bank (excluding non-withdrawable reserves) and notes and coins.

Liquidity stress testing and Internal Liquidity Metric ('ILM')

HSBC Continental Europe undertakes liquidity stress testing to assess its balance sheet under various stress scenarios and to confirm that the stress assumptions within the LCR scenario are appropriate and conservative enough for the group's business. HSBC Continental Europe also conducts reverse stress testing with the aim of reviewing the remoteness of the scenarios that would lead the bank to exhaust its liquidity resources.

Stress testing scenarios are run to evaluate the quality of liquidity resources under stresses of varying durations and nature. The ALCO approves the underlying assumptions and reviews results. These results are also presented through the Internal Liquidity Adequacy Assessment Process ('ILAAP') to the Board.

In addition to these stress-testing exercises, HSBC Continental Europe produces an internal liquidity stress metric (ILM) that is largely involved in the bank's liquidity management and for which a risk appetite and a risk tolerance are applied.

Finally, HSBC Continental Europe performs Fire Drill exercises to test the knowledge and right application of its Contingency Funding plan across the Bank.

Sources of funding

Our primary sources of funding are customer current accounts, repo and wholesale issuances and capital instruments.

The following 'Funding sources and uses' table provides a consolidated view of how the balance sheet of HSBC Continental Europe is funded, and should be read in light of the liquidity and funding risk framework.

The following table analyses HSBC Continental Europe's consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

Wholesale funding markets are accessed by issuing senior debt securities (publicly and privately) and borrowing from secured repo markets against high-quality collateral, to align asset and liability maturities, currency mismatches and to maintain a presence in local wholesale markets.

The main financing transactions in 2021 are presented in the Significant events during the year section on page 193.

Funding sources and uses

	2021	2020		2021	2020
	€m	€m		€m	€m
Sources			**Uses**		
Customer accounts	**70,144**	61,393	Loans and advances to customers	**59,612**	56,225
Deposits by banks	**18,548**	17,204	Loans and advances to banks	**6,832**	6,781
Repurchase agreements – non-trading	**8,731**	10,984	Reverse repurchase agreements – non-trading	**20,487**	21,522
Debt securities in issue	**7,414**	3,605	Cash collateral, margin and settlement accounts	**10,759**	18,388
Cash collateral, margin and settlement accounts	**13,573**	16,205	Assets held for sale	**2**	3
Liabilities of disposal groups held for sale	**—**	—	Trading assets	**12,921**	12,954
Subordinated liabilities	**1,876**	1,876	– reverse repos	**527**	20
Financial liabilities designated at fair value	**13,733**	16,892	– stock borrowing	**—**	7
Liabilities under insurance contracts	**23,698**	23,228	– other trading assets	**12,394**	12,927
Trading liabilities	**16,247**	17,828	Financial investments	**16,110**	19,167
– repos	**9**	—	Cash and balances with central banks	**38,063**	29,508
– stock lending	**—**	—	Net deployment in other balance sheet assets and liabilities	**16,854**	12,126
– other trading liabilities	**16,238**	17,828			
Total equity	**7,676**	7,459			
At 31 Dec	**181,640**	176,674	**At 31 Dec**	**181,640**	176,674

Contingent liquidity risk arising from committed lending facilities

HSBC Continental Europe provides committed facilities such as standby facilities and committed backstop lines to its customers. All of the undrawn commitments provided to conduits or external customers are accounted for in the LCR and NSFR in line with the applicable regulations. This, along with the live monitoring of the concentration over these instruments ensures that under a stress scenario any additional outflow generated by the increased utilisation of these committed facilities will not give rise to liquidity risk for HSBC Continental Europe.

HSBC Continental Europe's contractual exposures as at 31 Dec monitored under the contingent liquidity risk structure

	At	
	31 Dec 2021	31 Dec 2020
	€bn	€bn
Commitments to customers		
– Corporates	**45,724**	42,332
– Retail and SME	**290**	1,709
– Financials	**7,162**	4,174
– Others	**870**	4,352
Commitments to customers		
– 5 largest[1]	**12,465**	4,308

1 *Sum of the undrawn balance of the five largest facilities excluding conduits.*

Asset encumbrance and collateral management

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an HSBC Continental Europe basis consistent with the approach to managing liquidity and funding. Available loan collateral held in HSBC Continental Europe is managed as a single consistent collateral pool from which HSBC Continental Europe will seek to optimise the use of the available collateral. The objective of this disclosure is to facilitate an understanding of instantly available and unrestricted assets that could be used to support potential future funding and collateral needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on- and off-balance sheet)

	2021	2020
	€m	€m
Total on balance sheet assets as at 31 Dec	**222,664**	237,099
Less:		
– reverse repo/stock borrowing receivables and derivatives assets	**(60,648)**	(77,997)
– other assets that cannot be pledged as collateral	**(33,077)**	(31,496)
Total on-balance sheet assets that can support funding and collateral needs as at 31 Dec	**128,939**	127,606
Add: off-balance sheet assets		
– fair value of collateral received in relation to reverse repo/stock borrowing/derivatives that is available to sell or repledge	**50,809**	52,980
Total assets that can support funding and collateral needs as at 31 Dec	**179,748**	180,586
Less:		
– on-balance sheet assets pledged	**(39,205)**	(45,355)
– re-pledging of off-balance sheet collateral received in relation to reverse repo/stock borrowing/derivatives	**(43,628)**	(47,999)
Total assets available to support funding and collateral needs as at 31 Dec	**96,915**	87,232

Interest-rate risk of the banking book

Overview

Banking book interest rate risk is the risk of an adverse impact to earnings or capital due to changes in market interest rates. Interest rate risk in the banking book is generated by non-traded assets and liabilities and is monitored by Asset, Liability and Capital Management and controlled by Treasury Risk Management. The Risk Management Meeting ('RMM') approves risk limits used in the management of interest rate risk. Banking book interest rate risk is transferred to and managed by Markets treasury, who are overseen by Wholesale Market Risk and Product Control functions.

Governance

ALCM monitor and control non-traded interest rate risk as well as reviewing and challenging the business prior to the release of new products and proposed behavioural assumptions used for hedging activities. ALCM are also responsible for maintaining and updating the transfer pricing framework, informing the ALCO of the overall banking book interest rate risk exposure and managing the balance sheet in conjunction with Markets treasury.

The internal transfer pricing framework is constructed to ensure that structural interest rate risk, arising due to differences in the re-pricing timing of assets and liabilities, is transferred to Markets treasury and business lines are correctly allocated income and expense based on the products they write, inclusive of activities to mitigate this risk. Contractual principle repayments, payment schedules, expected prepayments, contractual rate indices used for re-pricing and interest rate reset dates are examples of elements transferred for risk management by Markets treasury.

The internal transfer pricing framework is governed by the ALCO whose responsibility it is to define each operating entity's transfer pricing curve and review and approve the transfer pricing policy, including behaviouralisation assumptions used for products where there is either no defined maturity or customer optionality exists. HSBC Continental Europe ALCO is responsible for monitoring and reviewing the bank's overall structural interest rate risk position. Interest rate behaviouralisation policies have to be formulated in line with the Group’s behaviouralisation policies and approved at least annually by ALCO.

Non-traded assets and liabilities are transferred to Markets treasury based on their re-pricing and maturity characteristics. For assets and liabilities with no defined maturity or re-pricing characteristics behaviouralisation is used to assess the interest rate risk profile.

Markets treasury manages the banking book interest rate positions transferred to it within the Markets Risk limits approved by RMM. Markets treasury will only receive non-trading assets and liabilities as long as they can economically hedge the risk they receive. Hedging is generally managed through vanilla interest rate derivatives or fixed rate government bonds. Any interest rate risk which Markets treasury cannot economically hedge is not transferred and will remain within the business line where the risk is originated.

Key risk Drivers

The bank’s interest rate risk in the banking book can be segregated into the following drivers:

- Gap risk – also known as Duration Risk or Repricing Risk – arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments’ rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk);
- Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices; and
- Option risk arises from option derivative positions or from optional elements embedded in a bank’s assets, liabilities and/ or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows.

Exposures

HSBC Continental Europe is exposed to a change of Eurozone interest rates curve on banking operations and structural elements of the balance sheet. Out of the set of Interest Rates scenarios that are run, the two most adverse ones are a decrease of 100 basis point with respect to its Net Interest Income and an increase by 200 basis points with respect to its Economic Value of Equity. HSBC Continental Europe would see its Net Interest Income on a 1Y horizon decrease by EUR 30 million for an immediate decrease of EUR Rates of 100 basis points. The bank would see a change of EUR -507 million on the Economic value of Equity at 31 December 2021 in an up 200 basis points scenario.

During the year 2021, in the context of the Covid-19 outbreak, HSBC Continental Europe has constantly monitored the interest rate risk associated with the credit drawdowns and additional customer deposits while home loans prepayment went back in line with historical trend.

Further information can be found in the *HSBC Continental Europe 2021 Pillar 3 document* on page 46.

Structural foreign exchange risk

Structural foreign exchange exposures represent the net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than euro.

Unrealised gains or losses due to revaluations of structural foreign exchange exposures are recognised in other comprehensive income, whereas other unrealised gains or losses arising from revaluations of foreign exchange positions are reflected in the income statement.

HSBC Continental Europe's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the group’s consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. HSBC hedge structural foreign exchange exposures only in limited circumstances.

Market risk

Market risk is the risk that the market rates and prices on which the Group has taken views – interest rates, exchange rates, equity prices etc – will move adversely relative to positions taken causing losses to the Group.

All open market risk must be subject to limits. A governance process ensures that this rule is respected in all the HSBC Group entities. These limits are defined in terms of lists of authorised instruments, underlying assets, markets and maturities, Value at Risk (‘VaR’) limits, sensitivity levels, maximum losses and stress tests. They are revised at least once a year in the annual limit review process and are presented in the Market Risk Forum.

The process for allocating market risk limits and the permanent market risk control system as a whole involve a number of people from the HSBC Group and HSBC Continental Europe, as well as specific committees, the roles of which are set out below.

Market Risk governance

At the HSBC Group level, market risk is managed and controlled through limits approved by the Risk Management Meeting for HSBC Holdings plc. These limits are allocated across business lines and to the Group's legal entities. Each major operating entity, such as HSBC Continental Europe, has an independent market risk management and control sub-function which is responsible for measuring market risk exposures, monitoring and reporting these exposures against the prescribed limits on a daily basis.

Group Wholesale credit and Market Risk (Group 'WMR')

In the HSBC Group, market risk supervision is carried out within the Wholesale credit and Market Risk department which is a sub-function of the Group Risk function. The Head of Group WMR reports to the HSBC Group Chief Risk Officer. This department is in charge, via its Traded Risk entity, of subsequently allocating risk limits to the various HSBC Group entities and business lines, via the Site Entity Room Mandates, once these have been validated by the appropriate HSBC Group governance body. Similarly, this department is in charge of monitoring exposure at the HSBC Group level and of granting temporary limits. The Wholesale and Market Risk department has a European dimension and a local dimension in certain countries including France.

Europe Traded Risk

The Head of Traded Risk Europe, who reports directly to the Global Head of Traded Risk and to the Head WMR Europe, supervises the mandates review process within his geographic zone of responsibility. He submits them for review to Group WMR. He is also functional head of the Head of Traded Risk France.

HSBC Continental Europe market risk governance

Locally, the Chief Risk Officer acts as Head of WMR France and is responsible for the management of the market risks limits for HSBC Continental Europe and the business lines it operates. On top of their submission to Group WMR through Traded Risk Europe, the risks mandates are also approved by the Chief Risk Officer and Head of WMR France within the risk appetite limits approved by the HSBC Continental Europe Board. These are subject to a formal review at least annually by the HSBC Continental Europe Market Risk Forum.

The HSBC Continental Europe Market Risk Forum ('MRF')

Its role is to oversee all market risk aspects, to ensure that appropriate controls are in place and to approve the main rules included in the supervision system.

The MRF is chaired by the Chief Risk Officer and Head of WMR France and is held on a monthly basis. It includes the heads of the businesses concerned by these risks and the main heads of the associated control functions: the Chief Risk Officer and Head of WMR France, the Head of Traded Risk France, the Head of Independent Model Review ('IMR') and the Head of Product Control.

The HSBC Continental Europe Market Risk Forum reviews risks and results indicators, analyses any significant events observed during the previous month, including any breaches of significant limits, any requests for permanent or temporary limits.

The Risk Management Meeting ('RMM')

The main areas of attention of the Market Risk Forum are reported to the HSBC Continental Europe RMM on a monthly basis.

Wholesale Credit and Market Risk ('WMR') France

WMR France is responsible for the wholesale credit risk and the market risk of the French balance sheet. The Chief Risk Officer and Head of Wholesale Credit and Market Risk France chairs the HSBC Continental Europe Market Risk Forum.

She is also a member of the HSBC Continental Europe Balance Sheet ALCO.

Traded Risk France

Within WMR Risk, Traded Risk designs, develops and implements the market risk management policy. This in particular covers:

- permanent monitoring of market risks;
- development and implementation of procedures complying with regulatory requirements and with best practices;
- allocation of market risk limits within HSBC Continental Europe compatible with its strategy and its risk appetite;
- approval of new products;
- calculations of market risks and Value at Risk ('VaR').

The Head of Traded Risk France reports hierarchically to the Chief Risk Officer and Head of Wholesale and Market Risk France. The Head of Traded Risk France is responsible for both Market Risk Management and Control ('MRMaC') France and Traded Credit France. He is responsible for ensuring the consistency and effectiveness of the market risk control framework. In general, it is the responsibility of the Head of Traded Risk France to provide Senior Management and HSBC Continental Europe's Market Risk Forum with comments and explanations concerning any significant breaches of max-loss and limits, or any positions he deems useful for Senior Management to know about.

MRMaC is made up of two teams: the Market Risk Management ('MRM') and the Market Risk Control ('MRC').

Market Risk Management ('MRM')

Market Risk Management ('MRM') defines market risk mandate limits, deals with breaches of limits and exceptional situations, monitor and analyses positions, depending on market movements, analyses the appropriateness of risk metrics (sensitivity, VaR, stress scenarios), defines and prepares a summary analysis of market risks for Senior Management, is involved in improving risk monitoring procedures and implements new indicators, as required by market developments.

The MRM team prepares the annual limit review jointly with the business heads and submits it for approval to the Chief Risk Officer and Head of WMR France and to Group WMR via the Head of Traded Risk Europe.

The MRM team acts also as a second line of defense on the Profit and Loss Valuations adjustments defined and implemented by Product Control.

Market Risk Control ('MRC')

The Market Risk Control teams are responsible on a day-to-day basis for checking adherence to all of the various market risk limits, regardless of the level of the market risk mandate and the nature of the limit in question. They report any breaches of these limits and also any consumption in excess of a warning threshold set at 80 per cent of the limit. They are responsible for reporting weekly the stress tests. They also carry out the back-testing of the VaR.

They also produce and distribute HSBC Continental Europe's consolidated market risk reports for Senior Management and for the HSBC Group Consolidation. The team is also responsible for producing the various periodical summary statements required for both internal needs (packs for the RMM, Risk Committee, the Board, annual reports, etc.) and external needs, such as supervisory authorities.

Market Risk Control reports hierarchically to the Head of Traded Risk France.

Traded Credit Risk

Two teams are responsible for the daily monitoring of the counterparty risk exposures of HSBC Continental Europe.

A first one is focusing on the reporting of counterparty risk. It ensures completion of the scope, performs daily controls and produces daily risk report to the second one, the risk managers.

On top of controlling adherence to the dedicated limits, the Traded Credit Risk Managers provide detailed and ad hoc analysis to senior management, ensure that risk measures are fit-for-purpose and runs regular stress tests on the portfolio.

Both teams locally report into the Head of Traded Risk France.

Independent Model Review

Models developed by the front office research team are used for managing, valuing and assessing the risks of some derivative products. These models as well as VaR models are reviewed by an independent unit of experts, the Independent Model Review ('IMR') previously called Quantitative Risk and Valuation Group ('QRVG'). Its manager reports at a local level to the Chief Risk Officer and Head of Wholesale and Market Risk France in charge of risks and functionally to the Head of IMR Europe.

Product Control

Product Control is responsible for daily independent controls over the valuation of the positions. It produces daily and detailed explanations of the economical Profit and Loss, and reconciles it at month-end with the accounting Profit and Loss. It performs controls over off-market and off-margin transactions (this task is being transferred progressively to the Markets Surveillance team) and is occasionally involved in the resolution of collateral disputes.

Definition, implementation and monitoring of Fair Value Adjustments are part of its remit, and it is also involved in the monitoring of the different recommendations issued by IMR in terms of model limitation. Head of Product Control locally reports to HSBC Continental Europe Chief Finance Officer, and functionally to the Head of Product Control for EMEA (Europe, Middle-East & Africa).

The HSBC Continental Europe Valuation Committee

The Valuation Committees meet on a monthly basis and features representation from Front Office, Product Control, Market Risk Management and IMR.

It notably reviews and approves of the results of the month-end Independent Price Verification (IPV) and Fair Value Adjustment. (FVA) calculation process as well as the prudent valuation calculations on a quarterly basis. Approximate bookings where systems do not adequately reflect the economics of a transaction are also considered during this meeting.

All fair value adjustment methodologies are reviewed and approved by this forum at least annually.

Market risk in 2021

Global economic activity has significantly recovered in 2021, after the sharp fall seen in 2020 due to the Covid-19 crisis. This rebound has been driven by the reopening process observed in most of developed countries on the back of the significant progress in vaccination campaigns.

Inflation concerns have reappeared over the summer. The main central banks announced the reduction of the accommodating policy, introduced in 2020 to support the economic recovery, leading to a rates new sell off on the markets during the last quarter of 2021. However, the Covid-19 environment is still a concern with the emergence of the new variant Omicron and the uncertainty around its impact on the activity.

Dedicated Covid-19 stress tests did not exhibit significant potential market risk losses on Trading portfolios.

They show significant increase of the Counterparty Credit Risk exposure but concentrated on collateralized or investment grade counterparties.

Market risk measures

Market Risk monitoring system

The objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite. HSBC uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, Value at Risk and stress testing.

The maximum exposure and risk that HSBC Continental Europe intends to bear are defined by a set of mandates which cover the most significant limits in terms of:

- Value at Risk, overall, total trading, sub-limits of VaR on interest rates, foreign exchange, equities;
- sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), and various 'spread' factors;
- Exposure-At-Default ('EAD') per bond issuers;
- maximum daily and monthly losses, referred to as 'max loss';
- authorised instruments.

Each business mandate encompasses several business units called Volcker and FBL ('French Banking Law') desks which in turn receive a set of limits from MRM after submission of a Trading Desk Profile by the desk Head. This document summarises the desk's strategy, the required risk limits as well as any other relevant information for the desk's operations.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices, such as the effect of a one basis point change in yield. HSBC uses sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

One of the principal tools used by the Group to monitor and limit market risk exposure is the VaR. An internal model of HSBC Continental Europe is used to calculate VaR.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (99 per cent for HSBC). HSBC Continental Europe calculates VaR daily. The VaR model used by HSBC Continental Europe, as for the Group, is based on historical simulation.

The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential variations in market prices are calculated with reference to market data from the last two years. Since January 2007, HSBC Continental Europe has been calculating a one-day VaR.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations.

For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The back-testing process compares the ex-ante calculated VaR figures with ex post daily Profit and Loss ('P&L') figures. This comparison tests the ability of VaR to control the expected P&L variations and therefore helps assess the quality of the internal model. Any shortcomings in the VaR model will particularly come to light if the day's P&L figures exceed 99 per cent VaR or where VaR systematically and overwhelmingly exceeds daily P&L figures.

The 'back-testing violation' exceptions are reported and analysed.

The model is back-tested by taking 99 per cent, one-day VaR figures and comparing them with daily results determined from changes in market prices assuming constant positions. Back-testing is done daily. Its results are reviewed monthly in a special HSBC Group committee and in the MRF and notified quarterly to the regulator of HSBC Continental Europe.

Risk not in VaR framework

VaR captures directly observable traditional risk factors on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, mean reversion parameters, etc. Therefore, since 31 December 2007, HSBC Continental Europe also calculates an additional VaR measure called 'Add-On VaR' or 'Risk not in VaR' in respect of these exotic risk factors.

Stressed VaR

HSBC Continental Europe calculates a Stressed VaR. Like VaR, it is calculated using historical simulations and a 99 per cent confidence level. However, unlike VaR, Stressed VaR is based on a 10 day period and a stressed period historical dataset. Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

Stress Testing

Stress testing is an important tool which is fully part of the Group's risk management framework. Their purpose is to assess the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity, regional and Group levels. A standard set of scenarios is used consistently across all regions within the Group.

Scenarios are tailored in order to capture the relevant events or market movements at each level.

The process is governed by the Stress Testing Review Group forum which, in conjunction with Group Risk management, determines the scenarios to be applied at portfolio and consolidated level, as follows:

- single risk factor stress scenarios that are unlikely to be captured within the VaR models, such as the break of a currency peg;
- technical scenarios, which consider the largest move in each risk factor without consideration of any underlying market correlation;
- hypothetical stress scenarios, which consider potential macroeconomic events, for example, the slowdown in mainland China and the potential effects of a sovereign debt default, including its wider contagion effects; and
- historical stress scenarios, which incorporate historical observations of market movements during previous periods of stress which would not be captured within VaR.

Other scenarios are designed locally to take into account activities that are specific to HSBC Continental Europe and are presented to the MRF on top of selected Group stress tests. Indeed, the whole set of scenarios with a significant impact on portfolio valuations are discussed and reviewed during the monthly Market Risk Forum.

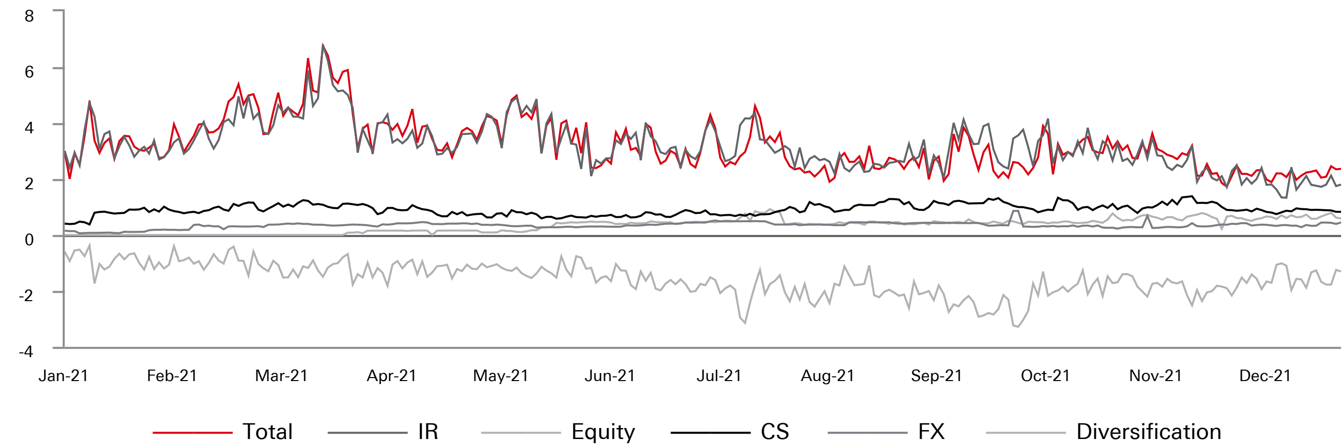
Local stress test scenarios defined in HSBC Continental Europe contemplates different scenarios on Eurozone (mixing different deformations of the yield curves of the sovereign issuers, including serious tensions on these spreads) and are regularly recalibrated to adjust to market conditions. Dedicated scenarios involving deformation of the swap curve and the volatility surface are also applied to more exotic books in order to capture the convexity and the distortion of risks of these books. These results are presented on a monthly basis to the MRF.

Trading portfolios

Value at Risk of the trading portfolios

Trading VaR remained within the risk appetite along the year and remained limited on average. The upward trend observed in the first quarter was related to higher sensitivities to USD rates volatility implied by the rise in US swap rates caused by higher inflation expectations, affecting the Structured Rates portfolio. In the last quarter, Trading VaR steadily decreased as year's end get closer.

Trading VaR by risk type (€m)



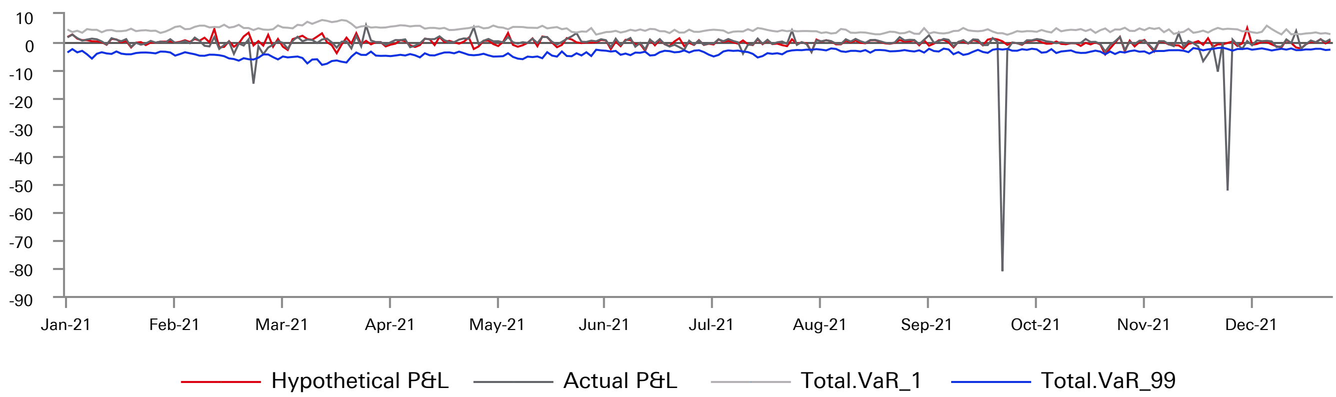
Trading VaR by risk type

	Foreign exchange ('FX') and commodity	Interest rate ('IR')	Equity ('EQ')	Credit Spread ('CS')	Portfolio Diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 31 Dec 2021	**0.45**	**1.80**	**0.59**	**0.83**	**(1.30)**	**2.37**
Average	**0.35**	**3.20**	**0.34**	**0.91**	**(1.57)**	**3.23**
Maximum	**0.86**	**6.80**	**0.93**	**1.39**	**(3.28)**	**6.76**
Balance at 31 Dec 2020	0.16	2.64	—	0.40	(0.73)	2.46
Average	0.24	3.44	—	0.45	(0.62)	3.51
Maximum	0.51	11.04	—	0.96	(1.43)	10.58

1D SVaR of the Trading portfolio

	€m
Average	**8.67**
Maximum	**16.20**
Minimum	**5.43**
At 31 Dec 2021	**7.70**

HSBC Continental Europe Backtesting



Non-Trading portfolios

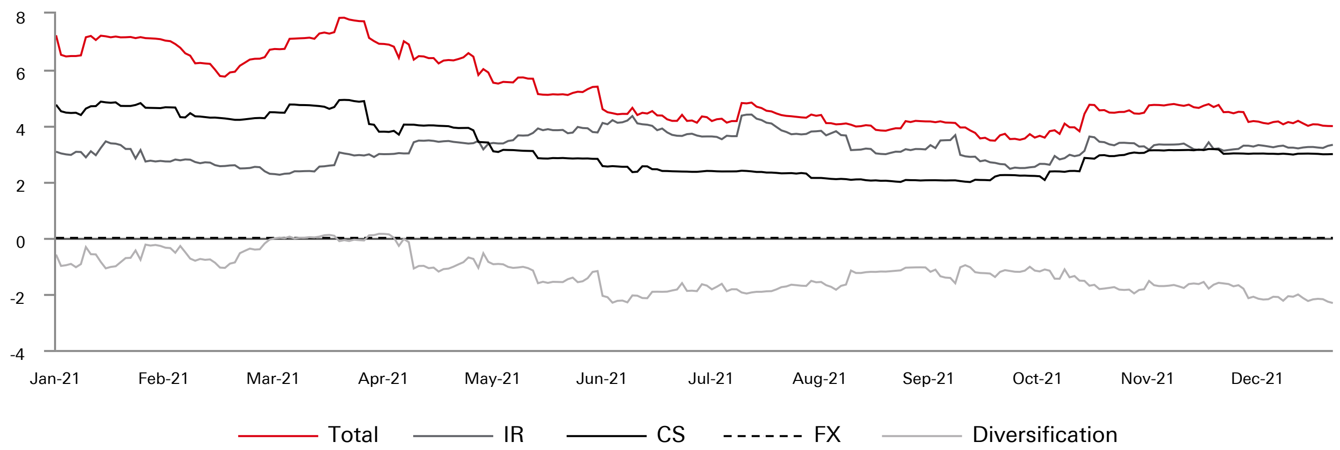
Value at Risk of the non-trading portfolio

The VaR of the non-trading portfolio decreased in absolute terms following the disposals of bonds in the Asset Liquidity Buffer.

Total accrual VaR by risk type

	Foreign Exchange	Interest Rate	Equity	Credit Spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 31 Dec 2021	**—**	**3.32**	**—**	**2.99**	**(2.32)**	**3.99**
Average	**—**	**3.24**	**—**	**3.19**	**(1.24)**	**5.19**
Maximum	**—**	**4.40**	**—**	**4.92**	**(2.32)**	**7.85**
Balance at 31 Dec 2020	—	3.25	—	4.79	(0.84)	7.19
Average	—	3.43	—	4.82	(2.11)	6.14
Maximum	—	4.78	—	6.91	(3.42)	8.86

Total non-trading VaR by risk type (€m)



Market risk under standardised approach

		At 31 Dec 2021		At 31 Dec 2020	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
	Outright products				
1	Interest rate risk (general and specific)[1]	**3**	**—**	146	12
2	Equity risk (general and specific)	**—**	**—**	—	—
3	Foreign exchange risk	**473**	**38**	100	8
4	Commodity risk	**—**	**—**	—	—
	Options			—	—
5	Simplified approach	**—**	**—**	—	—
6	Delta-plus method	**1**	**—**	93	7
7	Scenario approach	**—**	**—**	—	—
8	Securitisation (specific risk)	**—**	**—**	—	—
9	**Total**	**477**	**38**	339	27

1 *HSBC Continental Europe does not have specific risk positions related to securitisation at 31 December 2020 and 31 December 2021.*

Market risk under IMA

		At 31 Dec 2021		At 31 Dec 2020	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
1	**VaR (higher of values a and b)**	**505**	**40**	444	35
(a)	Previous day's VaR ('VaRt-1')	**97**	**8**	97	8
(b)	Multiplication factor (mc) x average of previous 60 working days	**505**	**40**	444	35
2	**Stressed VaR (higher of values a and b)**	**1,557**	**125**	964	77
(a)	Latest available SVaR ('SVaRt-1')	**260**	**21**	329	26
(b)	Multiplication factor (ms) x average of previous 60 working days	**1,558**	**125**	964	77
3	**Incremental risk charge (higher of values a and b)**	**466**	**37**	350	28
(a)	Most recent IRC value	**280**	**22**	278	22
(b)	Average IRC value	**466**	**37**	350	28
5	**Other**	**779**	**62**	566	45
6	**Total**	**3,307**	**265**	2,324	186

Non Financial (or Operational) risks

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

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

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

The risk of loss could be materialised under the following non-financial risk taxonomy, constituted by seven level 1 risk categories: Financial Reporting and Tax Risk, Financial Crime and Fraud Risk, Regulatory Compliance Risk, Legal Risk, Resilience Risk, Model Risk and People Risk.

Regulatory disposition

Basel II regulatory dispositions require that banking institutions take into account the operational risk management on three levels:

- In terms of capital requirements to take into account all banking risks and their economic reality (Pillar I).
- In terms of operational risk framework, meaning an implementation of an internal framework to manage risks which should enhance the prudential supervision by the national supervisors (Pillar II).
- In terms of information and financial communication on the matter, intended to administrators, supervisory authorities, shareholders, etc. (Pillar III).

Beyond regulatory requirements, managing operational risks and the permanent evolution of the control framework depending on changing activities and regulations to reduce losses from the Profit & Loss ('P&L') is a major strategic issue for HSBC Continental Europe and also improves customer experiences in our daily activities.

Operational Risk Management – Methodology defined by the regulator

Regulators have defined three methods which are the following:

- Basic approach;
- Standardised approach;
- Advanced approach.

Each of these methods is more complex than the other to determine the capital required to cover operational losses, leading to more complexity in terms of operational risk management.

Each method is linked to specific requirements in terms of risk management and external information on the framework of which implementation is a condition for the approach application.

Like HSBC Group, HSBC Continental Europe currently uses the standardised approach in terms of operational risks.

This approach is based on the application of different ratios (12 per cent, 15 per cent, 18 per cent) to the average gross income (over three years) of each one of the eight business lines defined by the Basel II framework.

It implies that a method has to be determined to divide the global gross income between business lines defined by the regulator.

Among qualitative criteria used for this method, the implementation of an internal operational risk framework is required and needs to include the following aspects:

- regular inventory of operational losses;
- potential operational risks identification for all entities;
- implementation of risk management processes, by defining and implementing action plans to mitigate the risks and by monitoring risk indicators;
- implementation of an independent structure to manage those risks;
- regular communication of information about the evolution of these risks to the executive management.

Quantitative aspects

The Finance department is in charge of calculating capital requirement related to operational risks and communicating it to the *Autorité de contrôle prudentiel et de résolution ('ACPR')* and the European central bank ('ECB').

First, the Net Banking Income ('NBI') has to be divided between the eight business lines defined by Basel II requirements to calculate the regulatory capital allocation. This task involves splitting the NBI by entities.

For operational losses, COREP (COmmon solvency ratio REPorting) statements are produced and communicated to the ACPR by the Finance department on behalf of HSBC Continental Europe; the Operational & Resilience Risk function with the support of the Region contributes to the production of two of these three COREP statements: Operational Risk Details and Operational Risk Large Loss Details on the consolidated perimeter of HSBC Continental Europe, excluding its subsidiary HSBC SFH (France), 100 per cent owned, which is specialised in the issuance of Covered Bonds and is monitored directly by the Finance department.

COREP is a prudential reporting implemented by the European banking supervision committee. It has been created based on English words: COmmon solvency ratio REPorting. It relates to the solvency ratio linked to Basel II agreement.

Using information recorded by Chief Control Officer ('CCO') in the operational risk management system, the Operational Risk function is in charge of the first level of controls of these statements.

	Regulatory Capital Charge %
Basel Lines of Business	
Corporate Finance	18
Trading and Sales	18
Retail Banking	12
Commercial Banking	15
Payments and Settlement	18
Agency Services	15
Asset Management	12
Retail Brokerage	12

Qualitative aspects

Tasks include the following activities:

- specific organisation in charge of monitoring and managing operational risks;
- identification, scoring and actualisation of potential risks to which group entities are exposed and first level controls to mitigate them;
- close monitoring of main material risks for the Group or concerned entities;
- definition and monitoring of action plans to mitigate the most material risks;
- annual definition of operational risk tolerance;

- recording and analysis of operational losses, notably regarding tolerance and reporting to executive management;
- promotion of operational risk culture intended to all group entities, through work performed by the first and the second line of defence and training and awareness actions;
- centralisation and coordination of HSBC Continental Europe Operational Risk Meeting ('ORM') work chaired by the Chief Risk Officer;
- contribution to operational risk management systems evolution;
- implementation and monitoring of operational risk indicators.

Permanent Control

The permanent control is primarily based on controls carried out by the managers responsible for each activity. The purpose of these controls is to ascertain that the activity is conducted in accordance with all internal, external and regulatory rules and is up to standard. The key responsibility for control falls to the managers of the various businesses, functions and Digital Business Services.

An independent control framework completes this first level of control. This comprises mainly:

- Functions acting as second line of defence. Assurance functions are dedicated to perform independent reviews covering specific types of risks. These reviews aim to assess compliance with Group procedures and applicable regulations as well as the performance of the first level control activities. Particularly Compliance, is responsible for non-compliance risk for HSBC Continental Europe as a whole as defined in the article 10 p) of the French Order of 3 November 2014 modified the 25 February 2021;
- Operational & Resilience Risk function, in charge of overseeing the non-financial risks management framework. The function oversees the work carried out by the first line of defence within the businesses, functions and Digital Business Services. The Operational & Resilience Risk function works closely with Functions acting as second line of defence, responsible for overseeing risks, within their perimeter. The function acts also as Risk steward for Resilience risks which includes risks related to goods and people safety, business continuity, cybersecurity, IT systems, third parties, transaction processing and data; and
- lastly, number of committees, forums and working groups that examine the results of controls and the main deficiencies.

To comply with the American Sarbanes-Oxley law ('SOX'), the HSBC Group has implemented since 2006 a framework for documenting and assessing internal control, with regard to the processes and operations involved in drawing up financial statements.

HSBC Continental Europe's Finance Department is responsible for coordinating all SOX measures and summarising their results.

Twice a year, the 'SOX 4 Way Meeting', chaired by the Chief Financial Officer, and primarily comprising the Statutory Auditors, the Financial Controller and the Periodic Control Officer of HSBC Continental Europe, reviews:

- any SOX deficiencies revealed by the three lines of defence;
- the result of tests run by the Statutory Auditors;
- action plans progress and status.

On a quarterly basis, HSBC Continental Europe's Audit Committee and the Risk Committee are informed of the results of controls carried out for SOX compliance purposes and of progress made in the action plans.

Within the permanent control process, the Risk function, overseen by the Chief Risk Officer, plays a major role. It is composed by specialised directions:

- Operational & Resilience Risk – in charge of monitoring and coordinating the permanent control framework and manages non financial risks. The function acts also as Risk steward for Resilience risks related to goods and people safety, business continuity, cyber-security, IT systems, third parties, transaction processing and data;
- Retail Credit Risk – Credit Risk on the retail market;
- Wholesale Credit Risk – Credit risk on the corporate market;
- Traded Risk – market and counterparty credit risks raising from the positions in books ;
- Independent Model Review;
- Global Risk Analytics – Models elaboration and follow-up;
- the Chief Risk Officer relies also on other functions to ensure a complete and accurate risk oversight (Human Resources, Finance function as regards with accounting, liquidity, structural interest rate, forex and tax risks, and Digital Business Services in particular for the oversight of IT and outsourced services). Functions at which we can add Compliance function including, Financial Crime Compliance and Regulatory Compliance, which report directly to the Chief Executive Officer.

All risk reports presented to the HSBC Continental Europe RMM, feed the HSBC Continental Europe's Executive Committee, the Audit Committee, the Risk Committee and the Board of Directors of HSBC Continental Europe.

HSBC Continental Europe RMM includes bank's European branches and is thus supported by Risk Committees from each business.

HSBC Group Manuals

The Group's Global Principles set an overarching standard for all other policies and procedures and are fundamental to the Group's risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and our colleagues fairly at all times.

All the HSBC Group's business activities must be fully documented in manuals or compendia of procedures. Functional Instruction Manuals are used to outline how specific risks are managed. They define the minimum risk management and control requirements that must be adopted throughout the organisation to ensure consistency and appropriate management of each risk in the taxonomy. They contain detailed policies and procedures relating to a specific business or function, product or activity, which must be adhered to throughout the HSBC Group, barring dispensation granted by the Functional Instruction Manual's owner for the HSBC Group.

Internal circulars are the key vehicle for communicating internal standards and rules derived from French regulatory requirements or HSBC Group standards that apply to several or all the HSBC Group structures operating in France or within its branches.

They are readily available on the HSBC Continental Europe Intranet and have been communicated to the new branches of HSBC Continental Europe, if applicable to them. The drafting, circulation and storing of circulars are governed by precise rules (also formally set out in a circular) and are regularly updated.

Handbook and codes of conduct

The Internal Rules covers ethical provisions applied to all staff relating to adherence with confidentiality, compliance with laws and regulations and professional integrity. In addition to these rules, each of the bank's businesses or activities may have a specific code of conduct and/or compliance manuals that collate operational application procedures relating to staff ethic and compliance with laws and regulations. Staff members qualified as 'High Risk Role' are also subject to specific requirements relating to personal transactions.

A conduct handbook available for all employees illustrates with examples to help staff making actions and decisions in accordance with the standards included in the 'Global Principles' document, with a key focus on values and conduct approach, applicable to every HSBC employees.

In 2020, HSBC deployed a code of conduct Anti Bribery & Corruption for France and its European branches. It has been attached to the Internal Rules, to guide daily actions from all people attached to HSBC entities in France.

The internal committees, forums and working groups

Risks and internal control oversight are driven by a number of dedicated committees, forums and working groups which facilitate management, communication and monitoring of operational risk as described in the section 2.5.1.Governance.

Senior Management is kept regularly informed of the organisation and findings of permanent and periodic controls, in particular through various dedicated committees and working groups that will be presented further in the part called 'Governance'.

Non financial (or Operational) Risk Management Framework

The Operational & Resilience Risk Function provides direction, insight and challenge on the management of non financial risks, along with an overall assessment of the non financial risk exposure versus Board appetite. The Operational & Resilience Risk function also monitor use and adoption of HSBC's non financial risk approach and reports on this to the Non Financial Risk Management Board, a subcommittee of the Group Risk Management Meeting.

The Operational & Resilience Risk function, supervised directly by the Chief Risk Officer, brings a holistic vision of risks. It has a consolidation and harmonisation role and provides an overview of the main operational risks and permanent control to the executive management, the Risk Committee and HSBC Group, collaborating with Chief Control Officer ('CCO') teams and functions acting in the second line of defence on critical subjects, such as risk maps reviews, the design and monitoring of action plans, incident reporting, risk indicators and control plans.

The function is also in charge of the HSBC Continental Europe Risk Management Meeting secretariat which allows to achieve a transverse vision of risks, both complete and prioritised and if possible, prospective of the main operational risk issues of all HSBC Continental Europe entities, including International locations to the Chief Risk Officer, Chair of the Risk Management Meeting, and to the other members of the HSBC Continental Europe senior management.

Previously composed by 16 level 1 risks, HSBC Continental Europe's operational risks (or non financial risks) taxonomy has been simplified and is now composed by seven risks, which synthesise main non financial risks that a bank faces:

- Financial Reporting and Tax Risk
- Resilience Risk
- Financial Crime and Fraud Risk
- People Risk
- Regulatory Compliance Risk
- Legal Risk
- Model Risk

Operational risks may have consequences on reputational risk. Any lapse by HSBC Continental Europe in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk which may impact its relationship with its clients, counterparts, shareholders, stakeholders and regulators. Safeguarding and building upon the Group's reputation is the responsibility of each employee of HSBC Continental Europe.

Identification and Management of Non financial (Operational) Risks

Governance

The general organisation of the permanent control is supported by Operational & Resilience Risk function regarding non financial risks. As mentioned earlier, this function works in close partnership with permanent control teams from businesses, functions, Digital Business Services and with other functions working in the second line of defence. A collaboration has also been implemented as soon as 2018 with the International Network Markets Chief Risk Officer and Chief Risk Officers from international locations who report to him in order to ensure a comprehensive risk management of all entities within HSBC Continental Europe perimeter.

Operational & Resilience Risk function hosts regularly a specific meeting called Operational Risk Meeting which deals with transversal subjects that have an operational impact, and disseminate risk culture through businesses and functions. That framework is supported by forums and committees related to permanent control and to operational risks in businesses and functions, that are appealed to ensure the oversight of operational risk management and permanent control for each entity.

The HSBC Continental Europe group has policies covering the process for identification, reporting, management, control and prevention of operational risks, specifying particularly that:

- operational risk management is first and foremost the responsibility of managers through their operations;
- IT systems are used to identify and report operational risks and generate regular and appropriate reports;
- identification and assessment of risks and controls across the entire scope are updated on an ongoing basis in order to identify every significant change;
- operational losses are gathered and reported on a monthly basis.

HSBC Continental Europe uses the standardised approach for calculating the regulatory capital needed to cover operational risks.

To estimate economic capital, HSBC Continental Europe uses the same concept, but as applied to certain specific businesses in the HSBC Group's structure instead of the eight businesses of the regulatory approach.

Operational Risk Assessment

Risk Maps

Compliant with the Operational Risk Functional Instruction Manual and its Technical User Guides, the implementation of risk maps is under the responsibility of Risk owners and Control owners. CCO teams coordinate the implementation and regular update of risk maps.

They are designed for a predetermined perimeter thanks to a methodology called Risk and Control Assessment ('RCA') based on the assessment of inherent risks, which is the risk level without considering the control in place, and on the assessment of residual risks, which is the risk level remaining after taking into consideration the control framework. The result of the assessment is registered in a four level scale:

- Very High Risk
- High Risk
- Medium Risk
- Low Risk

This risk hierarchy allows risk owners and HSBC Continental Europe senior management to prioritize risk management and facilitates the decision-making process.

This approach by risk levels helps to elaborate and define first and second level controls within a risk-based approach.

Risk maps cover non financial (or operational) risks to which entities are exposed and reflect key controls from the first level along with the second level control framework that enable to mitigate the most significant risks.The establishment and update of risk maps are done on a continuous basis with the help of control owners based on:

- results of controls performed by operational teams;
- results of independent controls done by Assurance teams from the second line of defence;
- recommendations and Review & Challenges from Risk Stewards;
- recommendations from periodic control reports, or third parties reports (including regulators);
- internal or external events.

Risk maps for non financial risks are formally presented to the Chief Risk Officer on a yearly basis, in order to ensure the relevance of those risks compared to the other risks that the bank faces.

Based on risk maps realised by businesses, functions and Digital Business services, Assurance functions develop a second level control plan, defined and updated continually and presenting the control activities that will be carried out the following year.

Deficiencies identified are presented to the relevant Risk Owner and documented in the operational risk system, Helios.

Incidents management and escalation

Major operational incidents linked to HSBC activities are reported to the HSBC Continental Europe Risk Management Meeting on the basis of information stored in the operational risk management system, Helios. That system manages in a centralised manner identification and updating processes, operational losses reports and the follow-up of action plans that aim to mitigate the main risks.

Operational incidents nature

The Functional Instruction Manual allows to categorise operational incidents with respect to different natures and also to distinguish the various impact types associated with them. Following a significant incident, the root cause is investigated through detailed analysis. This is to establish if there are links between similar processes or controls and the cause, or causes, of the original incident. The CCO is responsible of these tasks.

Main risks, incidents and risk indicators may result in action plans being integrated into the permanent control missions

Operational risk losses: quantitative data starting from 2013

Operational losses from 2013 to end of 2021 per risk category (*) (in millions of EUR)

	Accounting risk	Building unavailability and workplace safety event	People Risk	Fraud (External + Internal) ***	Failure in other principal risk processing	Information, technology, and cyber security risk	Legal risk	Transaction processing ****	Regulatory compliance risk	Security of people and physical assets event	Systems and data integrity event	Financial reporting and tax risk	Breach of fiduciary obligations	Financial Crime event	Model risk	Resilience risk	Total
2013	0.3	—	1.6	12.3	2.6	0.2	0.1	3.2	0,4	—	2.2	(2.5)	—	—	—	—	20.400**
2014	—	0.1	1.3	6.5	0.6	—	0.3	5.3	(2.8)	—	(0.3)	(0.1)	—	—	—	—	10.900
2015	0.1	—	1.1	4.9	1.8	—	0.6	4.6	3.4	—	0.5	—	—	—	—	—	17.000
2016	—	—	0.6	11.1	(0.2)	—	0.1	(15.7)	36.2	—	0.3	—	—	—	—	—	32.400
2017	—	0.1	0.9	3.1	1.4	—	—	3.4	0.7	—	0.1	1	—	—	—	—	10.700
2018	7.83	—	(0.07)	2.4	0.68	—	0.7	3.36	2	—	0.1	0.4	—	—	—	—	17.400
2019	—	0.016	0.99	2.503	1.68	1.22	(0.04)	8.09	(1.19)	—	—	1.8	0.019	—	—	—	15.083
2020	—	0.035	0.27	2.316	1.35	0.22	—	54.32	2.7	—	—	0.09	0.008	—	17.11	3.28	81.699
2021	**—**	**—**	**0.62**	**2.00**	**1.73**	**—**	**(0.02)**	**2.96**	**1.05**	**—**	**—**	**11.08**	**—**	**2.07**	**—**	**2.97**	**19.486**

(*) *Figures Source: Operational risk system (Helios).*
(**) *Excluding a one-off legacy internal event within GBM.*
(***)*Fraud (External and Internal) External and Internal Fraud included in Financial Crime for 2021.*
(****) *Transaction Processing included in Resilience rIsk for 2021*

Number of events (financial impact) per risk category(*)

	Accounting risk	Building Unavailability and workplace safety event	People Risk	Fraud (External + Internal) ***	Failure in other principal risk processing	Information, technology, and cyber security risk	Legal risk	Transaction processing****	Regulatory compliance risk	Security of people and physical assets event	Systems and data integrity event	Financial reporting and tax risk	Breach of fiduciary obligations	Financial Crime event	Model risk	Resilience risk	Total
2013	1	—	38	142	46	2	34	150	39	1	31	7	—	—	—	—	491**
2014	—	2	34	228	33	1	21	146	53	1	19	6	—	—	—	—	544
2015	1	—	57	158	40	—	17	149	56	—	7	2	—	—	—	—	487
2016	—	—	26	136	41	—	19	140	51	—	10	—	—	—	—	—	423
2017	1	1	33	117	32	1	5	248	41	—	7	3	—	—	—	—	489
2018	4	—	34	112	35	—	8	276	26	—	17	6	—	—	—	—	518
2019	—	1	38	103	63	8	2	194	27	—	—	9	10	—	—	—	455
2020	—	1	35	73	42	8	—	183	38	—	—	2	6	—	2	27	417
2021	**—**	**—**	**34**	**66**	**52**	**—**	**8**	**170**	**68**	**—**	**—**	**6**	**—**	**68**	**—**	**171**	**407**

(*) *Figures Source: Operational risk system (Helios).*
(**) *Excluding a one-off legacy internal event within GBM.*
(***)*Fraud (External and Internal) External and Internal Fraud included in Financial Crime for 2021.*
(****) *Transaction Processing included in Resilience rIsk for 2021*

RWA and capital requirements related to operational risk to the end of 2021

(in millions of euros)	RWAs	Capital requirements
HSBC Continental Europe	**3,557**	**285**

The year's highlights 2021

We continued to focus on the HSBC Third Party Risk Management Framework and Cloud framework further to the implementation of the EBA Guidelines on Outsourcing, now included in the French order of 3 November 2014 modified the 25 February 2021.

The Covid-19 outbreak remains a key point of attention within the Bank, requiring robust contingency plans in a context where the Banks assume critical financial service roles. The Operational & Resilience risk function is still involved to ensure appropriate management of non financial risks during the period. Conduct principles are still applied in all decisions and actions with a balanced exchange of value between the bank and customers and to strongly collaborate across Lines of Business to optimise best practices and processes to deliver good outcomes to customers.

Raising awareness of the Risk Management principles has continued and mandatory trainings related to Non-financial Risks, including Financial Crime Risks, IT Security and Regulatory Compliance have been deployed throughout the year.

Compliance

Due to the integration, in 2020, at the regional level, of the Regulatory Conduct and Financial Crime into a single Compliance function, the Chief Compliance Officer of Continental Europe ('CE CCO') oversees now both functions as well as shared compliance teams. In 2021, the organization remains the same.

"The Chief Compliance Officer of Continental Europe ("CE CCO") reports directly on his activities to the Executive Directors as well as the supervisory body through the Risk Committee and the Board of Directors in accordance with Articles 30 and 31 of the French Order of 3 November 2014 updated by the order of 25 February 2021."

The CE CCO carries out the roles of Head of Compliance for Investment Services ('RCSI') for HSBC Continental Europe in respect of Articles 312-1 and 312-2 of the General Regulation of the AMF. The different Heads of Compliance for Investment Services ('RCSI'), Heads of Compliance and Internal Control ('RCCI') for the legal entities of HSBC Continental Europe, come under the responsibility of the Head of the Compliance function. For the EEA branches of HSBC Continental Europe, the organisation principles described above apply to them in a similar way.*

Governance and structure

The functioning of the framework and the main financial crime and regulatory conduct risks identified are reviewed through dedicated risk management forums, consisting of both the compliance function and lines of business representatives. These forums have a decision-making role in terms of managing the financial crime and regulatory conduct risks and associated controls. They also facilitate the provision of information to Senior Management on the functioning of the system, identified issues, and the corrective measures undertaken.

The main formal governance body is the HSBC Continental Europe Risk Management Meeting ('RMM'). The RMM is a formal governance committee established to provide recommendations and advice on enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the HSBC Continental Europe perimeter. The Continental Europe Chief Compliance Officer is a member, and provides updates for noting, discussion and approval to the RMM. The RMM serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives, including the management of all financial crime and regulatory compliance risks. The Committee sets tone from the top by delivering comprehensive senior-level oversight, robust decision making and timely remediation of issues. Other compliance governance forums are the HSBC Continental Europe Compliance Executive Committee, attended by the HSBC Continental Europe CCO and his/her direct reports, and the HSBC Continental Europe Compliance Management Meeting, attended by the CE Country CCOs.

The quarterly Conduct & Regulatory Compliance Forum, renamed as Conduct and Values Committee in June 2021, meets under the chairmanship of the Chief Executive Officer including as permanent members, Executive Committee members from the Business, HR, Functions and Compliance.

To ensure the appropriate level of information of the Senior Management of HSBC Continental Europe on the functioning of the risk control framework, the main topics raised during the Forum include:

- The oversight of conduct owned by the business lines and HR through achievement, initiatives and risks regarding customer fair treatment and market integrity;
- The findings of the controls carried out by the Compliance Assurance team, the status of its recommendations and their implementation by action owners in the first line of defence;
- Cross-business regulatory compliance topics, whether for information, for action and/or for decision by Senior Management.

Furthermore, regarding the risks related to new products and services as well as material changes and withdrawal for existing products, the majority of the businesses have specific bodies for the examination of products and services. In France, all new products and material changes for existing products are subject to the approval from the Product Approval Committee named *'Comité d'Examen des Produits'*, chaired by the Chief Executive Officer of HSBC Continental Europe, and whose secretariat is managed by Compliance.

The Compliance function organises on a quarterly basis an oversight Committee of Whistleblowing arrangements called 'HSBC Continental Europe Whistleblowing Oversight Committee' where each investigative function (Human Resources and Compliance) is represented. The objectives are (but not limited to) as follows:

- Monitor the operational activities related to whistleblowing case management with KPIs and provide MIs;
- Ensure a follow-up of open cases, and especially the older ones;
- Present latest enhancements in the arrangements in place;
- Share emerging trends, best practices and impacts of new legal & regulatory framework; and
- Address any concerns and track issues raised until their resolution.

Regulatory compliance

Overview

The Compliance Advisory function is in charge of the regulatory compliance ('RC') risk control framework of the HSBC Continental Europe. The Compliance Advisory function relies, on the regulatory monitoring of its Regulatory Affairs teams and also on the monitoring of the Legal function in order to identify the modifications of legislative and regulatory texts as well as developments of jurisprudence having an impact on the activities of the HSBC Continental Europe.

The analysis of RC risks is documented in maps recording the legislative, regulatory, professional provisions, as well as the provisions specific to the HSBC Group, applicable to each business or function, and the procedures and controls implemented to ensure compliance with said provisions. The RC risk maps are updated on a regular basis depending on trigger events.

The RC risks relating to the activities of HSBC Continental Europe stem primarily from the following areas: customer protection, compliance with conduct rules relating to client interests, complaint handling, the protection of the integrity and transparency of financial markets, the preservation of the confidentiality of information, employees code of ethics, the prevention of conflicts of interest and compliance with the applicable rules in terms of marketing (both on a domestic and a cross-border basis).

Key Developments in 2021

2021 was marked by the confinement in the context of the state of emergency caused by the Covid-19 virus, which directly impacted the bank's distribution strategy and the processes in place. The economic challenges have required a focus on our customers in difficult financial situations and an increased attention to our code of conduct.

The Compliance Advisory function has monitored information related to coronavirus and has provided its support to the business in order to provide adequate measures and notably, the risks mitigation measures where necessary.

All Compliance Advisory teams contributed to ensure the right level of continuity in their risk stewardship over the activities of their respective HSBC Continental Europe business lines and functions, despite the difficulties related with the Covid-19 crisis.

Throughout 2021, the Compliance Advisory function further improved its monitoring of the EEA branches of HSBC Continental Europe.

Lastly, during the year 2021, HSBC Continental Europe continued its work to develop effective responses to the challenges of the UK's withdrawal from the European Union and of the IBOR transition, in line with the requirements of the regulators.

Key risk management processes

Compliance examination procedures and detection and prevention tools

HSBC Continental Europe has specific compliance examination procedures, in accordance with the provisions of Articles 35 to 38 of the Order of 3 November 2014 updated by the order of 25 February 2021 relating to banks' internal control systems, as well as tools for detecting and preventing RC risks.

These procedures and tools are the subject of regular updates and upgrades.

Control System

The Compliance function is considered to be first and foremost in the Second Line of Defence in the HSBC Group. This role is ensured:

- firstly, by implementing the policies or circulars, by advising and training the operating staff in the businesses or functions;
- secondly, by conducting cross-functional theme-based reviews carried out by the Compliance Assurance team.

The reporting of issues and RC Risk Control Forums

Monitoring of the functioning of the control compliance framework relies in the first instance on existing reporting procedures within the Compliance function, as well as on the information made available through governance forums.

Problems identified in the implementation of the compliance obligations are the subject of an incident report that is drawn up and must be transmitted to the appropriate level within the Compliance Function, followed by regular monitoring of the actions implemented to rectify the situation, using a dedicated tool called IRIS (Integrated Regulatory Information System).

The incidents identified as having a high risk are also monitored in a specific tool (Helios) and constitute a trigger event to review the risk identified.

Supervision and recording of Regulatory Engagements

Under the consolidated approach to non-compliance risks, the Compliance Function ensures centralised monitoring of Regulatory Engagements within entities of the HSBC Group regarding notably FC and RC risks, mostly via the Regulatory Affairs team. Since February 2018, the HSBC Group records the Material Regulatory Engagements between HSBC and its regulators and supervision authorities in a tool dedicated to the supervision.

Staff training and awareness

The Compliance Function of the HSBC Group, in conjunction with the Training Department, draws up an annual staff training programme covering also RC risks. Training sessions, classroom-based or in the form of e-learning, are organised in the different businesses and functions. These trainings include notably a focus on the requirements of regulators and supervision authorities and the importance of effective relationships with them.

In 2021, training programmes were provided on the following themes :

- Three Global Mandatory Trainings ('GMT') for all the HSBC Continental Europe's employees (included those of the branches) on the following Conduct themes: Sustainability, Risk management, Health, Safety and Well-being, Data Privacy, Cyber Security, Understanding our customers, Taking Responsibilities, Data Literacy, Discrimination Harassment & Bullying and Competition law;
- several training depending on the business line, on the following themes: the client assets, the benchmark and the IBOR, the swap and the Swap Execution Facility, the protection of the customer interests (the training was about 'Putting customer first' and regarded the communicating products, the post-sale servicing and the complaints handling).

Regarding the mandatory training, it was rolled out among all the employees of HSBC Continental Europe and had to be completed within a prescribed time. The company's Management monitored the completion rate for this training programme each month and took corrective measures, where applicable, enabling all employees to complete the programme within short timeframes.

Financial Crime

Overview

The Financial Crime ('FC') function relies, in particular, on the local legal monitoring of the French Legal function in order to identify the modifications of legislative and regulatory texts as well as jurisprudential developments having an impact on the activities of HSBC Continental Europe.

The analysis of non-compliance risks is documented in maps recording the legislative, regulatory, professional provisions, as well as the provisions specific to the HSBC Group, applicable to each business or function, and the procedures and controls implemented to ensure compliance with the said provisions. Noncompliance risk maps are regularly updated.

The non-FC risks relating to the activities of HSBC Continental Europe stem primarily from the following areas: Anti-Money Laundering, Counter Terrorism Financing, Anti-Bribery & Corruption, international financial sanctions respect, Fraud, and Tax-fraud.

Key risk management processes

Compliance examination procedures and detection and prevention tools

HSBC Continental Europe has specific compliance examination procedures, in accordance with the provisions of Articles 6 to 10 of the order of 6 January 2021 relating to AML-CTF and asset freezing internal control. These procedures and tools are subject of regular updates and upgrades.

Control System

This role is ensured:

- firstly, by implementing policies, by advising and training the operating staff in the businesses and functions;
- secondly, by conducting cross-functional theme-based reviews carried out by the Compliance Assurance team ('Compliance Assurance').

- In addition, HSBC Continental Europe Compliance is in charge:
  - of the oversight of different branches in Europe in relation to Financial Crime, with a view to comply with HSBC Group policy and local regulatory requirements.
  - of the oversight of other HSBC Continental Europe countries in relation to Financial Crime with a view to comply with HSBC Group policy.

Issues reporting and the FC Compliance Committee

The control compliance framework follows up potential identified issues, relying on existing reporting procedures within FC, Compliance *Assurance*, Investigations and COO functions, as well as on information in regard to the supervisory bodies.

Issues reporting

Potential issues identified are raised to the attention of the management and reported in the Integrated Regulatory Information System ('IRIS') tool for appropriate action and follow-up, as well as to regulators when above previously defined thresholds as per Article 98 of the French Order of 3 November 2014 updated by the order of 25 February 2021. As part of a non-compliance risk consolidated approach, the FC Function ensures, furthermore, a centralised monitoring of any supervisory authorities contacts within group's entities of HSBC Continental Europe.

Staff training and awareness

Staff training relating to fight against financial crime principally includes:

- Mandatory e-learnings ensuring all employees having sufficient Financial Crime Risks knowledge and their respective roles;
- Certifying training classroom-based for the FCC Risks employees most exposed: new employees follow a training and receive a certification within 90 days following their arrival in HSBC;
- A re-certification is performed annually;
- Ad hoc Training Plans: for employees who require further training for the realisation of their daily tasks in terms of Financial Crime.

Mandatory trainings are part of the staff performance assessment and are included in their variable pay.

Legal risks and litigation management

The HSBC Continental Europe Legal Department is responsible for HSBC Continental Europe's legal risks oversight as a second line of defence, and acts as a first line of defence in helping the various HSBC Continental Europe group businesses and functions to prevent and control legal risk.

The Legal Department is in charge of litigation follow-up. The Legal Department also supervises the legal teams of HSBC Continental Europe's subsidiaries and branches abroad.

Prevention of legal risks

The Legal Department is responsible for running the Legal Risks Forum which meets quarterly to examine situations likely to give rise to specific and significant legal risks. The Legal Department participates in the Product Approval Committee, in the Operational Risks Forum, and in the Risk Management Meeting of HSBC Continental Europe, and is involved in due diligence procedures for market operations, structured transactions and any new acquisition (or disposal) of an entity or business by the HSBC Continental Europe.

The Legal Department is also responsible for managing risks, directly or indirectly, connected with defence litigation matters. It is involved in dealing with credit files requiring special management or in default. The Legal Department monitors other risks that might have a legal impact.

Control framework of legal risk

The Legal Risks Forum, chaired by the Chief Risk Officer, meets quarterly to ensure that the risks framework for legal risks remains adequate in the face of changes in laws, regulations and group organisation.

The Forum also examines the monitoring of incidents raised previously, the results of implemented controls, along with any new incidents and measures taken.

This framework is wholly effective and a detailed description of it is given in a regularly updated internal procedure.

A legal risks taxonomy has been defined to harmonise their identification and control of legal risks within the HSBC Group. The Legal Department is deeply involved in the review and control of the legal risks assessed by the businesses and functions in their Risk and Control Assessments.

Litigation monitoring with regard to HSBC Continental Europe entities

The status of the risks arising from significant litigation in progress against the HSBC Continental Europe is examined monthly by a committee run by the Financial Controller, chaired by the Chief Financial Officer and the Chief Risk Officer and is made up notably of representatives of the Finance Department, the Credit Department and the Legal Department. This committee decides upon the amount of any litigation risk provision to be charged or written back.

Cases in progress as at 31 December 2021 involving legal risks likely to have a significant effect on the financial situation of HSBC Continental Europe are set out below.

Interbank commissions relating to electronic cheque processing

In 2002, a number of banks with retail networks, including HSBC Continental Europe forming part of an inter-branch committee sponsored by the French Banking Federation, introduced a system of interbank fees applying to the new electronic cheque processing termed *Echange d'Images Chèques ('EIC')*, the cheque image exchange system.

In March 2008, the French Competition Authority sent notification of a complaint to the 12 members of the committee – including HSBC Continental Europe – for the introduction of interbank fees when the *EIC* was set up.

On 20 September 2010, the French Competition Authority issued an unfavourable decision as regards the scheme introduced in 2002. In substance, it found that the *EIC* constituted an illegal anti-competitive scheme, the purpose of which included effects on the cost of processing cheques causing an increase in costs charged on 'major remitter' customers. The banks involved in setting up this charging system were fined a total of EUR 384.9 million. HSBC Continental Europe was ordered to pay a fine of EUR 9.05 million. HSBC Continental Europe, together with the other banks that were fined, except the Banque de France, decided to appeal this unfavourable decision.

The banks actually contest both the anticompetitive purpose and the anticompetitive effect of the *EIC*-related commission and argue that it had no significant effect on the costs of banking services. The banks, including HSBC Continental Europe, further question the method used in calculating the fines imposed upon them.

On 23 February 2012, the Paris Court of Appeal overturned the decision of the French Competition Authority, finding that the Authority had failed to demonstrate a restriction by object. The Paris Court of Appeal cleared the banks of wrongdoing and ordered the repayment of fines paid by the banks.

The French Competition Authority appealed to the Supreme Court against the decision.

On 14 April 2015, the French Supreme Court overturned the decision of the Paris Court of Appeal of 23 February 2012 solely on procedural grounds.

Consequently, the banks had to transfer back the sums reimbursed on the basis of the decision of the Paris Court of Appeal of 23 February 2012.

The French Supreme Court referred the parties back to the Paris Court of Appeal.

On 21 December 2017, the Paris Court of Appeal decided that the banks, including HSBC Continental Europe, did infringe competition law. The amount of the fine against HSBC Continental Europe is unchanged.

HSBC Continental Europe has appealed the 21 December 2017 Paris Court of Appeal's decision before the French Supreme court. On 29 January 2020, the Supreme Court decided to quash the 2017 appeal decision and to refer the case back to the Paris Court of Appeals.

On 2 December 2021, the Paris Court of Appeal overturned the decision of the French Competition Authority, ruling that no prohibited restriction of competition had been established. The Paris Court of Appeal entirely cleared the banks of wrongdoing and ordered the repayment of fines paid by the banks.

The French Competition Authority has appealed the decision before the French Supreme Court.

The Apollonia case

As was the case for around 20 other banks, HSBC worked during a limited period of time (from early 2006 to April 2007), and mainly in one branch, with a financial adviser and estate agent, known as Apollonia. The latter offered its clients (mainly independent professionals) 'turnkey' tax efficient products of the *Loueur Meublé Professionnel ('LMP')* (professional lessor of furnished accommodations) type and for a small number of investors *'Loi Robien'* type tax efficient products.

Between April 2006 and April 2007, 184 property loan applications were approved, for a total of EUR 29 million, bearing in mind that different media have said the total amount of operations by Apollonia with all banks purportedly reached around EUR 2 billion.

At the end of September 2008, HSBC Continental Europe became aware of the use of inappropriate marketing methods by Apollonia. Moreover, it appeared that most of the borrowers took out several loans through Apollonia from various banks without notifying HSBC Continental Europe.

HSBC Continental Europe is involved in the litigation as a civil law party, giving it access to the criminal file. From this, it has become apparent that a very large proportion of the official agency authorisations, signed by the buyers giving authority to sign purchase and sales deeds, were not properly prepared.

HSBC Continental Europe systematically files proceedings against investors with loan repayments due but the hearings are often held in abeyance because of the criminal proceedings under way.

However, in order to settle the financial aspects of the matter, without waiting for the outcome of criminal proceedings, out-of-court settlements have already been reached with some borrowers and talks are continuing with other borrowers.

Proceedings have also been commenced against the notaries involved and their insurer MMA. These proceedings have also been adjourned for the time being.

HSBC Bank Polska S.A.: ACTION Case

On 29 June 2018, HSBC Continental Europe acquired from HSBC Bank plc 100 per cent of the shares of HSBC Bank Polska S.A. Pursuant to the terms of the Sale and Purchase Agreement, HSBC Continental Europe and/or its subsidiaries will be indemnified by HSBC Bank plc in respect of certain liabilities relating to the activities of HSBC Bank Polska S.A. prior to the acquisition of HSBC Bank Polska S.A. HSBC Bank Polska S.A. is involved in the proceeding as described below. In April 2017, ACTION brought an action against HSBC Bank Polska S.A. alleging, among other things, breach of a facility agreement and claiming damages and indemnification for lost profits. The proceeding is ongoing.

European interbank offered rates investigations and litigation

See Note 32 of the consolidated financial statements with regard to other significant legal proceedings and regulatory matters relating to HSBC Group entities generally, including HSBC Continental Europe.

Other regulatory, civil law or arbitration proceedings

To date, as far as HSBC Continental Europe is aware, it is not threatened by any other regulatory, civil law or arbitration proceedings that are in progress or in suspense against it that might have, or over the last 12 months have had, any significant effect on the financial situation or the profitability of the company and/or of the group.

Tax risk

Overview

HSBC seeks to apply the spirit and the letter of the law in all territories where we operate. As a consequence, we pay our fair share of tax in the countries where we operate.

HSBC does not undertake transactions whose sole purpose is to abuse the tax system or otherwise employ tax avoidance strategies, for example by artificially diverting profits to low tax jurisdictions.

HSBC does not deal with customers who are not tax transparent or who may want to use our products to avoid taxation.

HSBC will use tax incentives or opportunities for obtaining tax efficiencies where these:

- Are aligned with the intended policy objectives of the relevant government; and
- Are aligned with business or operational objectives.

Governance and structure

The HSBC Continental Europe Tax Department ('DAF'), oversees as a Second Line of Defence the HSBC Continental Europe group tax risk.

DAF attends the Product Examination Committee, the Committees related to Internal Control and Operational Risk and Wealth Management Oversight Committee ('WMOC') and is part of the GBM Due Diligence process.

Key risk management process

Tax risk is managed in accordance with Non Financial Risk Optimisation Program ('NFRO') which defines minimum standards and processes, and the governance structure for the management of operational risk and internal control.

Responsibility for minimising operational risk lies with all HSBC employees. Specifically, all staff are required to manage operational risks, including tax risks of the business and operational activities for which they are responsible.

The Tax Policy covers three key risks:

- Tax payments – risk of failure to withhold, charge or pay taxes;
- Tax compliance – risk of failure to report and file accurate tax returns including customer information;
- Tax avoidance – risk that HSBC enters into transactions on its own account or promotes products and services to customers that are not consistent with the spirit of the law (tax avoidance);

HSBC manages the three key tax risks by:

- Identifying the risks;
- Ensuring that the right controls are in place to prevent, manage and reduce risk;
- Setting policy and guidelines for managing tax risks;
- Providing support and guidance to support the above policies; and
- Employing an experienced, professionally qualified in-house tax team. Our in-house team is supported by advice from external advisers whenever in-house expertise is not available.

Global Internal Audit is responsible for providing independent assurance that HSBC is managing tax risk effectively.

Key developments 2021

HSBC continues to apply global initiatives to improve tax transparency such as:

- The OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- The Capital Requirements Directive IV ('CRD IV') Country by Country reporting;
- The OECD Base Erosion and Profit Shifting ('BEPS') initiative pillar 1 and 2; and
- DAC6 disclosure of aggressive operations.

Financial Reporting risk

The accounting procedures

The Finance Department is responsible for the effective enforcement of accounting policies and accounting control processes in compliance with the framework of HSBC Continental Europe. It defines, for all the entities of HSBC Continental Europe, the procedures and controls to be applied. This particularly concerns procedures and accounting policies, and the reconciliation and substantiation of Balance Sheet and Off Balance Sheet and the Analytical Review of accounts that support the preparation of the financial statements.

The accounting and regulatory audit trail is documented in accordance with the procedures and documentation established under the responsibility of the departments of Financial Control.

The Finance Department updates and circulates the procedures and accounting guidance which complies with the French GAAP and International Financial Reporting Standards ('IFRS'). These principles are compliant with the French Commercial Law, French accounting standards and IFRS.

The enforcement of IFRS by all the entities of HSBC Continental Europe is also in compliance with the accounting principles of the HSBC Group.

Organisation of accounting production and financial reporting

The vast majority of reporting is produced monthly and on both a non-consolidated and consolidated basis, and year-on-year analysis of significant variances supports substantiation. Two sets of accounts are prepared, one under French GAAP and one under IFRS.

The HSBC Group's integrated 'SARACEN' consolidation software produces IFRS-compliant consolidated financial reporting statements that also meet all the requirements of the local regulator and the parent company.

A financial and balance sheet datawarehouse ensures that financial, regulatory and management reports are consistent with financial accounting. The datawarehouse stores data from both HSBC Continental Europe and most of its subsidiaries. It contains various types of data required for internal and external disclosure. Consistency controls have been established within the datawarehouse, which feeds the consolidation software and is used to produce the various French regulatory reports via the Report Authority software.

Control of accounting production

The financial control of the Bank is organised around three main axes:

- The monthly account certification;
- The analytical review of the financial statements;
- The Internal Sarbanes-Oxley ('SOX') control framework.

HSBC Continental Europe prepares, on a monthly basis, a certificate of accounting reconciliations which is addressed to the HSBC Group Europe Finance Department. This certificate, which is an attestation of the full reconciliation and substantiation of Balance Sheet and Off Balance Sheet, is signed off by the CFO, based on a consolidation of certificates of accounting reconciliations transmitted by the heads of accounting and financial reporting of HSBC Continental Europe and its entities. These certifications are formalised using the Group managed accounting certification tool AssureNET.

The monthly accounting certification reporting is based on the principle according to which each account of a general balance is assigned to an owner, which is responsible for its reconciliation. The anomalies detected lead to the determination of corrective actions for the teams and business concerned. The BRCM (Business Risk & Control Managers), and internal controllers of the First Line of Defence, provide assurance over these controls during their work programme on a risk based approach.

Balance sheet and profit and loss analytical reviews are performed by operational accounting and Business Finance/Management Reporting and Analysis teams on a monthly basis. Analysis is performed to identify material variations against business plans and budgets and unexpected trends compared to prior periods. All major variations are investigated and explained. These reports are sent to the HSBC Continental Europe executive committee, including the CEO and the heads of businesses and functions, as well as to HSBC Group Finance. Financial reporting is presented quarterly to the Audit Committee, the Risk Committee and the Board of HSBC Continental Europe. The Audit Committee and the Risk Committee examine quarterly, half-yearly and annually the accounts submitted to the Board.

In order to comply with the requirements of American Law of Sarbanes-Oxley ('SOX'), enforced by the HSBC Group, HSBC Continental Europe thoroughly evaluates the controls in place while establishing the financial statements. End to end process controls are identified, documented and subject to regular assurance reviews.

Defects identified during this process must be corrected in the given period of time defined by the owners of remediation action plans and should be quarterly reviewed by the Finance SOX internal controller.

The Internal Audit team is actively involved in the supervision of the correct implementation of SOX process, while performing their periodic controls. The Finance SOX internal controller has access via the Audit databases of HSBC Group (ARAMIS and AID – Audit Issues Database), to the audit points raised by the different teams of audit, which permits to follow-up SOX recommendations issued by the periodic control team. In addition, the external statutory auditors perform every year the review of the control organisation on the behalf of HSBC Group and give their opinion on the SOX 404 report prepared by the management of HSBC Holding PLC.

Every quarter, the Audit Committee and Risk Committee of HSBC Continental Europe are informed of the results of these controls and the progress of main action plans in case of deficiencies. A certificate is half-yearly sent by HSBC Continental Europe to HSBC Holding, duly signed by the CEO, the CFO and the Head of Internal Audit, attesting the effectiveness of internal financial controls.

Resilience risk

Overview

Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of sustained and significant operational disruption. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

Key Developments in 2021

The Operational and Resilience Risk sub-function provides robust non-financial risk steward oversight of the management of risk by the Group businesses, functions and legal entities including HSBC Continental Europe. It also provides effective and timely independent challenge. During the year we have carried out a number of initiatives to strengthen the management of non-financial risk:

- We developed a more robust understanding of the bank's risk and control environment, by updating material risk taxonomy and control libraries and refreshed material risk and control assessments.
- We further strengthened our non-financial risk governance and senior leadership focus.
- We enabled better analysis and reporting of non-financial risks, where more of our risk practitioners now have access to a wider range of management information on their risks and controls.
- We created a consolidated view of all risk issues across the bank enabling better senior management focus, read across on material control issues and intervention as required.
- We broadened the end to end process view of non-financial risk management and improved operational resilience, with greater rigor and visibility around changes to risks and controls and to empower business service owners to improve customer service and better protect the bank
- We increased the capability of risk stewards to allow for effective stewardship to be in place across the Group.
- We strengthened read across of issues and near misses by implementing a group wide harmonized approach across businesses, functions and regions.
- We enhanced risk management oversight across the most material change initiatives to support growth in strategic transformation in 2021.

We prioritise our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need. We also remotely provide oversight and stewardship, including support of chief risk officers, in territories where we have no physical presence.

Governance and structure

The Operational and Resilience Risk target operating model provides a consistent view across resilience risks and which strengthens our risk management oversight while operating effectively as part of a simplified non-financial risk structure. We view resilience risk across seven risk types related to: third parties and supply chains; information, technology and cybersecurity; payments and manual processing; physical security; business interruption and incident response; building unavailability; and workplace safety.

The principal senior management meeting for operational and resilience risk governance is the HSBC Continental Europe Risk Management Meeting chaired by the HSBC Continental Europe Chief Risk Officer, with an escalation path to the HSBC Bank plc Risk Management Meeting.

Key risk management processes

Operational resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption, protecting customers, the markets we operate in and economic stability. Resilience is determined by assessing whether we are able to continue to provide our most important services, within an agreed level. We accept we will not be able to prevent all disruption, we prioritise investment to continually improve the response and recovery strategies for our most important business services.

Business operations continuity

Business Continuity, in response to the Covid-19 pandemic, remains in place across a number of locations where HSBC Continental Europe operates, allowing the majority of service level agreements to be maintained. There were no significant impacts to service delivery in locations where HSBC Continental Europe operates.

Model risk

Overview

Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used. Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

Key developments in 2021

In 2021, we continued to make improvements in our model risk management processes, amid regulatory changes in model requirements.

Initiatives during the year included:

- We redeveloped, validated and submitted critical 'IRB' approach models for credit risk and 'IMA' approach models for market risk to the ECB in response to regulatory capital changes.

These new models have been built to enhanced standards using improved data as a result of investment in processes and systems.

- We redeveloped and validated models impacted by changes to alternative rate setting mechanisms due to the IBOR transition.
- We made further enhancements to our control framework for our Sarbannes-Oxley models to address the control weaknesses that emerged as a result of significant increases in model adjustments and overlays that were applied to compensate for the impact of Covid-19 on models and to introduce a requirement for second line of defence to approve material models prior to use.
- Our businesses and functions were more involved in the development and management of models, hiring colleagues who had strong model risk skills. They also put an enhanced focus on key model risk drivers such as data quality and model methodology.
- Our model owners in businesses and functions fully embedded the requirements included in the model risk policy and standards introduced in 2020.
- We delivered a suite of training on model risk to front line teams to improve their awareness of model risk and their adherence to the governance framework.
- We rolled out new model risk appetite measures, which are more forward looking and will help our businesses and functions manage model risk more effectively.
- We continued the transformation of the Model Risk Management team, with changes to the model validation processes, including new systems and processes. We also made changes to the model inventory system to provide businesses and functions with improved functionality and more detailed information related to model risk.
- We initiated a programme of development related to climate risk and models using advanced analytics and machine learning, which have become critical areas of focus that will grow in importance in 2022 and beyond. We also added qualified specialist skills to the model risk teams to manage the increased model risk.

Governance and structure

At the level of HSBC Group, Model Risk Management is headed by the Chief Model Risk Officer, and is structured as a global sub function, with regional Model Risk Management teams which support and advise each global business and global function. At the level of HSBC Continental Europe, Model Risk Management is headed by its local head, reporting to the Chief Risk Officer, and functionally to the EMEA Head of Model Risk Management. The HSBC Continental Europe head of Model Risk Management is supported by a team of independent model review and model risk Governance staff based locally, and by teams in HSBC Centres of Excellence in Poland and India.

Key risk management processes

We use a variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications. These activities include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Responsibility for managing model risk is delegated from the Risk Management Meeting to the global and local Model Oversight Committees. These committees regularly review our model risk management policies and procedures, and require the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management.

Model Risk Management also reports on model risk to senior management on a regular basis through the use of the risk map, risk appetite metrics and top and emerging risks. We regularly review the effectiveness of these processes, including the model oversight committee structure, to help ensure appropriate understanding and ownership of model risk is embedded in the businesses and functions.

Periodic control

In accordance with French ministerial order of 3 November 2014 (the 'Order'), significantly updated on 25 February 2021, concerning internal control within financial institutions, and payment and investment service providers, the role of Internal Audit is to provide Senior Management and HSBC Continental Europe Audit and Risk Committees objective assurance on risk management and the internal control system implemented by the bank. Periodic controls on HSBC Continental Europe aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks, by means of independent investigations conducted centrally by staff qualified for this purpose.

As part of HSBC Group's risk management framework, Global Internal Audit ('GIA') constitutes the Third Line of Defence, coming successively behind the businesses and functions' own First Line of Defence (Risk Owners, Control Owners and Chief Control Officers) and the Second Line of Defence teams (Operational and Resilience Risk, Assurance Teams and Risk Stewards). Whilst the First and Second Lines of Defence are taken into account, GIA has unlimited scope to define its own programme of work. This freedom is based on the fact that Internal Audit is responsible for providing Senior Management and the Audit Committee and Risk Committee of the bank, independent assurance on the risk exposure and level of control by management.

As such, Internal Audit pays attention, in the first instance, to the evaluation of the respect of legislation applicable to the audited area, secondly, to the correct application of rules and procedures in force within HSBC Group and finally, that audited activities remain within the defined appetite for exposure to the associated risks.

In accordance with article 27 of the Order, the periodic control framework applies to the entire HSBC Continental Europe company, including its European branches, as well as to companies under exclusive or joint control.

GIA is comprised of six global audit teams whose role is to provide expert coverage of HSBC Group's businesses and functions:

- Wealth and Personal Banking ('WPB') Audit;
- Commercial Banking ('CMB') and Global Banking ('GB') Audit;
- Markets and Securities Services ('MSS') Audit;
- Finance and Risk Audit;
- Compliance Audit; and
- Digital and Business Services ('DBS') Audit.

GIAis also comprised of, four regional audit teams (United Kingdom, Asia Pacific, United States and Rest of the World) that include Country Audit Teams ('CATs'). Global Internal Audit Continental Europe ('GIA CE') being one of the CATs, whose responsibility is to cover the risks within HSBC Continental Europe legal perimeter (Belgium, Czech Republic, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden), supported by a local team in Luxembourg.

HSBC Continental Europe periodic control is therefore covered conjointly by two GIA entities, functionally linked and coordinated:

- GIA CE, a general audit team based in France and in Poland, in the main historically auditing central functions, WPB, CMB, banking operations, IT and strategically important projects. GIA CE budgeted headcount was 25 members in 2021, mainly split between business auditors and IT auditors; and
- the global teams, specialised by business and/or function, based principally in London and in Hong Kong.

Beyond the functional and regional organisation described above, GBL INA relies on local resources in numerous countries.

CATs form one of the pillars of GIA's strategy. Country teams have the detailed knowledge of local regulations and environment enabling coverage to be adapted as appropriate, and functionally reporting to the global audit function strengthens their independence and ensures consistency between teams, all of whom are held to the high standards defined and regularly updated in the Audit Instruction Manual ('AIM'). That all teams share a reporting line into a global function helps collaboration and the sharing of best practices.

Periodic controls on HSBC Continental Europe in 2021 have thus been assured jointly by GIA directly, by GIA CE or by both actors in concert in accordance with the agreement signed on 25 March 2011 and updated on 2 August 2019 which structures the roles, responsibilities and coverage model.

There are five members of the global GB and MSS audit teams that are based in Paris. In addition, other members of global teams are also located in Paris: one person for Model Risk Audit and two persons for Insurance Audit.

The scopes of local audit and global audit converge and are consolidated in the HSBC Continental Europe audit plan. In all cases, as defined in the aforementioned Order, all audits on HSBC Continental Europe are managed in coordination with the Head of GIA CE (Inspector General), who oversees their consistency and efficiency.

The Head of GIA CE reports to the Head of Rest of the World Audit and HSBC Continental Europe Audit Committee, and administratively to the HSBC Continental Europe Chief Executive Officer. Since 2017, in accordance with the Solvency II requirements, one independent Senior Audit Manager in charge of periodic control for the insurance subsidiary of HSBC Continental Europe has been appointed.

All Audit work is performed in accordance with HSBC Group's audit standards, as set out in AIM, which is updated on a regular basis. The latest version (v.5.2) has been issued on 21 December 2021.

The Auditing, Reporting and Management Information System ('ARaMIS') has been implemented in 2017 and is used for all audit activities:

- Management of the Audit Universe;
- Risk Assessment of the Audit Entities;
- Preparation of the Audit Plan;
- End-to-end Audit Process; and
- Issue Tracking and Follow-Up.

ARaMIS will be replaced by a new global internal audit system in 2022, the Strategic Audit Management System ('SAMS').

Methodological changes have been introduced in 2021 in order to:

- Drive shorter, sharper audits;
- Encourage management to proactively identify and discuss issues; and
- Deliver clearer, more succinct messaging to help management to act.

Consequently, GIA introduced various methodological changes in 2021:

- The revised Audit Universe, aligned to the size and structure of the Bank and to better differentiate Group Significant (GSIC) and Locally Significant (LSIC) countries;
- The simplification of the approach for the classification of the Management Self-Identified Issues (MSIIs), the proactive identification by Management becoming the main criterion;
- A new scale for the Control Rating, with four ratings instead of three;
- The replacement of the Management Action Grade ('MAG') by the Active Risk Management Rating ('ARMR');
- A new format for the audit reports to distil the essence of the audit work into a more concise, direct, and useful two-page summary;
- The development of a new culture audit approach to assess the impact of culture in supporting or inhibiting sustainable performance against strategic aspirations and managing risk within appetite; and
- The replacement of the Audit Everywhere Questionnaire (AEQ) by the Cooperation Tool, whenever it is needed to inform a non-cooperative conclusion in the audit report.

In addition to regular discussions held with GIA, a number of other elements contribute to maintaining an independent and up to date view of key risks within HSBC Continental Europe, in particular:

- the Inspector General participates in the HSBC Continental Europe Executive Committee, the HSBC Continental Europe Risk Management Meeting ('RMM') and the HSBC Continental Europe Audit Committee and those of its subsidiaries in France;
- the Senior Audit Managers participate in the Risk Committees of the different businesses and functions;
- regular bilateral meetings, usually quarterly, are held between the Inspector General, GIA CE senior management and the different heads of businesses and functions; and
- regular meetings, usually quarterly, are held between the Inspector General, GIA CE senior management and the external auditors.

Audit reports are sent to the accountable executive, who is ultimately responsible for ensuring that Internal Audit's findings are remediated as well as any findings from the supervisory authorities or external auditors. The HSBC Continental Europe Chief Executive Officer, the HSBC Continental Europe Chief Risk Officer, the HSBC Continental Europe Chief Operating Officer, the HSBC Continental Europe Head of Compliance and the HSBC Continental Europe Head of Operational and Resilience Risk receive a copy of all audit reports.

Audit reports relating to HSBC Continental Europe and subject to an adverse rating are routinely presented and commented on to HSBC Continental Europe Audit Committee by the Inspector General.

This committee also monitors outstanding action plans resulting from very high or high risk audit issues.

Finally, the HSBC Continental Europe Internal Audit function is a member of the Inter-Audit Committee (*Comité Inter-Inspections Générales – CIIG*), which assembles eight French banks together to undertake common audits of vendors providing services to at least four members, as required by title V, chapter II of the Order. This approach to jointly audit common service providers is also mentioned in the European Banking Authority ('EBA') guidelines on outsourcing arrangements that have been issued in February 2019.

Human resources

Risks relating to human resources management and control system

At the end of 2021, the main HR risks with potentially significant impacts on the operation of HSBC Continental Europe were as follows:

- psycho-social risks generated in particular by Covid-19 crisis, a poor working environment, inadequate working conditions, insufficient human resources or inadequate managerial practices;
- people risk linked to lake of resources and/or skills of team;
- data security risks relating to the loss or unauthorised distribution of sensitive data relating to staff;
- legal risks relating to non-compliance with regulations;
- risks of non-payment of employer contributions and taxes on remuneration.

HSBC Continental Europe's Human Resources Department acts as the second line of defense of the Human Resources ('HR') risk of the HSBC Continental Europe group

For this purpose, it has mapped the transverse risks relating to HR as well as the HR function risks. This mapping is updated at least once a year and is used in support of the annual control plan.

The internal control also relies on risk indicators (HR Operational Risk and People Risk), which are commented monthly at the Risk Management Meeting.

The HR Risk Forum was set up in 2009. It meets quarterly in order to review the permanent control system of the Human Resources risk function. The members of this Committee are the main Heads of HSBC in France's Human Resources Department, the HR Operational Risk Function correspondent, the representative of Legal in charge of Employment law, the representative of Regulatory Compliance and the representative of Audit France.

The Forum especially presents the governance topics managed by HR and action plans in progress. It reviews progress on recommendations communicated to HR by Audit, or other

Functions or internal control and progress on risk identified by HR departments. It performs analysis on operational loss and HR incidents.

It ensures that service providers are listed and that the risks relating to the services provided have been assessed. It reports on its work to the 'Operational Risk Meeting'.

The committees

Role of the HSBC Continental Europe People Committee

The People Committee supports the Head of HR and CEO with respect to strategies, policies and any initiatives in term of staff management according to the Group HR policy approved by the Group People Committee ('GPC'), while taking into account local practices and regulatory constraints.

The main missions of the People Committee are:

- Follow up, on a transversal way at local level and within every Global Business and Global Function, of the implementation of Group strategies in term of staff management, for instance regarding diversity, international mobility, employees engagement score, recruitment, personal development;
- Review of possible dispensations obtained towards GPC on approaches adopted with regard to strategies implementation and/or Group main policies in term of staff management;
- Follow up of main risks in term of staff management at local level (especially cases of breaches identified through incentivizing compliance process, statistics on turnover, results of Global People Survey ('GPS') and corresponding action plans);
- Identification of local talented employee, in the context of the Inspire programme (leadership development in France), the Group Program 'Explore' and the management of the annual succession plan for the critical roles (Enterprise Critical Roles and Business Critical Roles);
- Follow up of the appropriate application of the Group Strategy in term of performance management and assessment of talented employee;
- Analysis of the evolution of organisational structures if any and corresponding decisions at local level (for example major changes to Job Catalogue, to managers scope of responsibilities);
- Review of GCB 0-3 career movements;
- Approval of minutes and review of previous People Committee actions plans.

In term of remuneration, the People Committee in its limited perimeter performs different roles both in its global and individual aspects.

Remuneration policy

It examines the remuneration policy put forward by the Human Resources Department for France and approves it.

It ensures that this policy fits in with the general principles of the remuneration policy set out by the HSBC Group for all of its subsidiaries, in accordance with the specific directives set by the global businesses lines.

It gives its opinion on whether this policy complies with local industry standards and the recommendations of the French bank supervisory authorities *(Autorité de Contrôle Prudentiel et de Résolution, European Central Bank, Autorité des Marchés Financiers, Fédération Bancaire Française).*

Variable remuneration arrangements

It checks that all variable remuneration arrangements in place in the bank's various businesses are in line with the general principles set out in the remuneration policy for France, Group and the global businesses lines and comply with the requirements of the supervisory authorities.

It reviews the variable remuneration packages awarded by global businesses lines to local teams (in France or outside of France) on the basis of the overall performance of each business and of the relative performance of teams, while taking risk and compliance into account.

It approves the structure of these packages, i.e. the split between cash and shares, between immediate remuneration and deferred remuneration in application of the HSBC Group rules, and local industry standards on the subject.

Individual awards

After approval of the list, it reviews and approves the consistency of remuneration of the 'Material Risk Takers' (except for the members of the People Committee in its limited perimeter) before submitting them to the appropriate HSBC Continental Europe and HSBC Group decision-making bodies.

It reviews the businesses' 20 highest earners (except the members of the People Committee in its limited perimeter) in conjunction with the HSBC Continental Europe and HSBC Group's decision-making bodies and the global businesses lines.

It reviews the list of individual breaches with respect to internal rules in term of credit risk, compliance and reputation, information security, and for specific employees, to mandates provided by Volker and SRAB rules.

The Human Resources department undertakes to submit a summary of the major focus and main changes of the remuneration policy to the first Remuneration Committee of the Board of Directors following the People Committee in its limited perimeter.

Role of the Remuneration Committee

On the basis of the remuneration policy papers prepared by the People Committee in its limited perimeter, the Remuneration Committee, chaired by an independent Director, gives his view on the bank's remuneration policies and, practices ensuring they are consistent with the HSBC Group policy and that they comply with applicable local standards. It also ensures that risk management and compliance issues are taken into account.

Its scope of responsibility covers all remuneration policies and practices in place within the company, with a more in-depth review of market professionals and Executive Directors.

Role of the Risk and Compliance functions as regards remuneration policies

The Risk and Compliance functions are, in accordance with the HSBC Group rules – Functional Instruction Manual ('FIM') and Global Standards Manual ('GSM') referred to for advice on laying down remuneration policies on introducing new variable remuneration systems and finally during the pay review process when allocating individual discretionary variable.

To strengthen the Risk and Compliance functions, certain changes were made in 2010 and significantly reinforced in 2015.

On a practical level, these functions are responsible, in their respective fields of operation, for:

- identifying and listing, throughout the year, all instances of non-adherence to compliance rules and/or rules of internal procedure and/or rules concerning risk or security information;
- instructing cases of individual breach in coordination with employee's manager and, if appropriate, with Employee Relation team;
- presenting cases to the Operational Risk Committee of the business concerned in order to assess the gravity of the risk and the level of severity of the individual breach taking into account aggravating and mitigating factors. Finally, the Committee decides the disciplinary and/or managerial actions to be implemented, any adjustment on performance rating and as a result on variable remuneration and last whether, regarding the severity of the breach, the 'malus' rule needs to be applied, cancelling some or all previously awarded and unvested shares;
- if necessary, providing feedback to management for possibly making possible changes to internal procedures and to the 'balanced scorecard' of the employees involved in the breaches.

The Human Resources Department notifies the People Committee and the Remuneration Committee of the list of decisions giving a summary of the individual and/or group behaviour that breached internal rules in terms of risk or compliance and a summary of exceptional positive contributions and behaviours aligned to our 'Global Standards'.

Insurable Risk Coverage

HSBC Continental Europe is covered through Global insurance programs placed by HSBC Holdings plc for major insurable operational risks, to protect people, infrastructures and assets.

Cover limits for assets protection are set on an 'extreme' loss assumption, aiming to mitigate major impacts on Group activities. Cover limits for infrastructure risks (notably property damage), are based on reinstatement value and vary among locations. On site insurers risks engineer visits are processed regularly.

Local policies are issued for most of Group insurance programs. HSBC Continental Europe also places regulatory required local insurance policies, such as, civil liability for licensed activities, construction works, or third party liability motor insurance.

As a principle, levels of coverage and retentions are in line with:

- insurance market conditions, business practices and regulations;
- assets values and potential impact on HSBC Continental Europe and HSBC Holdings plc balance sheets, and risk appetite.

The total amount of insurance premiums paid in 2021 represents 0.30 per cent of HSBC Continental Europe's net operating income. Major programs involve the HSBC Group reinsurance captive's participation.

Brokers and partners are chosen in accordance to their expertise and international network. Insurers are selected with a strict control of their solvency policy.

ESG Risks – Environmental, Social and Governance

Refer 'Non-financial performance statement' within 'Sustainability'.

Sustainability and climate change risk

HSBC Continental Europe manages the risk that the financial services which it provides to customers may have unacceptable

impacts on people or the environment. Sustainability risk can also lead to commercial risk for customers, credit risk and significant reputational risk for the bank.

We manage sustainability and climate risk across all our businesses in line with our Group-wide risk management framework which is based on robust sectoral policies and formal processes.

We have identified ten sectors where we are most exposed to transition risks: electricity and utilities; oil, gas and coal; energy; construction and materials; chemicals; automotive; mines and metals; real estate; transport; manufacturing; and agriculture. Through a company-by-company approach, we collate information about our customers' climate transition strategies to assess their need and readiness to adapt, and to identify potential business opportunities.

In October 2020, HSBC has set a climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to the Paris Agreement goal of net zero by 2050. In December 2021, HSBC announced its thermal coal phase-out policy, with the phase out of thermal coal financing in EU/OECD by 2030 and the rest of the world by 2040. To support our goal of net zero financed emissions, unlocking transition finance for our portfolio of clients is crucial.

In 2021, HSBC Continental Europe measured the carbon emissions related to its financed emissions in two sectors: Oil & gas and Power & Utilities, following Group's methodology. It also assessed its coal exposure on its lending portfolio. For more detailed information, refer to 'Environmental, Social and Governance Risks', pages 108 in Areas of Special Interest and 'Managing the environmental risks related to banking activity' page 56.

Risk management of Insurance operations

The risk governance framework of HSBC *Assurances Vie* (France) focuses on several committees, whose responsibility is to manage the exposure of the business to risks according to the limits of the risk appetite. The main committees involved in the risk governance are the following:

- the Actuarial Control Committee validates the changes in assumptions, methodology and processes that result in a material impact on profit before tax or solvency position;
- the Local Insurance Model Oversight Committee validates, controls and monitors the models used by the business;
- the Asset and Liabilities Committee manages the asset-liability risk and monitors the economic and regulatory capital levels;
- the Investment Committee manages the investment risks (market, credit and liquidity risks);
- the Compliance Committee covers the topics related to the fight against financial crime and money laundering and to the regulatory compliance;
- the Insurance Risk Committee monitors the insurance risks, including the lapse rate (redemption, mortality and morbidity), the reinsurance strategy and the non-economic assumptions used in the models.

The Risk Management Meeting's responsibilities extend to all risks to which the Insurance business is exposed. The RMM uses the risk reports from the above committees and exercises governance on those committees, overseeing their structure and their running. The RMM reports to the Audit and Risk Committee of HSBC *Assurances Vie* (France) the significant issues and the actions being taken to manage them.

This section provides disclosures on the risks arising from insurance manufacturing operations including financial risks such as market risk, credit risk and liquidity risk, and insurance risk.

Risks in the insurance manufacturing operations are managed within the insurance entity using methodologies and processes appropriate to the insurance activities, but remain subject to oversight at HSBC Group Insurance level.

HSBC Continental Europe's bancassurance model

HSBC Continental Europe operates an integrated *bancassurance* model which provides wealth and protection insurance products principally for customers with whom the Group has a banking relationship. Insurance products are sold predominantly by Global Businesses Wealth and Personal Banking and Commercial Banking through their branches and direct channels.

The insurance contracts HSBC Continental Europe sells relate to the underlying needs of the HSBC Group's banking customers, which it can identify from its point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts. Where HSBC Continental Europe does not have the risk appetite or operational scale to be an effective manufacturer, a handful of leading external insurance companies are engaged in order to provide insurance products to the HSBC Group's customers through its banking network and direct channels.

The local subsidiary sets its own control procedures in addition to complying with guidelines issued by the HSBC Group Insurance. Country level oversight is exercised by the subsidiary's local Risk Management Meeting.

In addition, local subsidiary's ALCO monitors and reviews the matching over time of the expected cash flows of insurance assets and liabilities.

All insurance products, whether manufactured internally or by a third party, are subjected to a product approval process prior to introduction.

Financial risks of insurance operations

HSBC Continental Europe insurance businesses are exposed to a range of financial risks which can be categorised into:

- market risk: risks arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;
- credit risk: risk of financial loss following the default of third parties to meet their obligations; and
- liquidity risk: risk of not being able to make payments to policyholders as they fall due as a result of insufficient assets that can be realised as cash.

Regulatory requirements prescribe the type, quality and concentration of assets that HSBC *Assurances Vie* (France) must maintain to meet insurance liabilities. These requirements complement the HSBC Group-wide policies.

The following table analyses the assets held in HSBC Continental Europe's insurance manufacturing company by type of contract, and provides a view of the exposure to financial risk.

Financial assets held by HSBC Assurances Vie (France)

	At 31 Dec 2021			
	Linked contracts	Non-linked contracts	Other assets	Total
	€m	€m	€m	€m
Financial assets at fair value through profit and loss				
– debt instruments	–	2,148	1,222	3,371
– equity instruments	45	6,365	306	6,716
Total	45	8,513	1,528	10,086
Financial assets at fair value through OCI				
– debt instruments	–	8,919	1,887	10,807
– equity instruments	–	–	–	–
Total	–	8,919	1,887	10,807
– Derivatives	–	25	1	26
– Other financial assets	–	3,119	1,925	5,043
Total	45	20,576	5,342	25,962

Approximately 55 per cent of financial assets were invested in debt securities at 31 December 2021, and 26 per cent invested in equity securities.

In life-linked insurance, the net premium is invested in a portfolio of assets. HSBC Assurances Vie (France) manages the financial risks of this product on behalf of the policyholders by holding appropriate assets according to the type of contracts subscribed.

Market risk of insurance operations

Market risk arises when mismatches occur between product liabilities and the investment assets which back them. For example, mismatches between asset and liability yields and maturities give rise to interest rate risk.

The main features of products manufactured by the Group's insurance manufacturing company which generate market risk, and the market risk to which these features expose the company, are discussed below.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Interest rate risk arises to the extent that yields on the assets supporting guaranteed investment returns could be lower than the investment returns implied by the guarantees payable to policyholders.

The income from the insurance and investment contracts with Discretionary Participation Features ('DPF') is primarily invested in bonds; a fraction is allocated to other asset classes in order to provide customers with an enhanced potential yield. The subsidiaries holding such type of product portfolio are at risk of falling market prices when discretionary bonuses cannot fully take it into account.

An increase in market volatility may also result in an increase in the value of the guarantee granted to the insured.

Long-term insurance and investment products typically permit the policyholder to surrender the policy at any time or to let it lapse. When the surrender value is not linked to the value realised from the sale of the associated supporting assets, the subsidiary is exposed to market risk. In particular, when customers seek to surrender their policies when asset values are falling, assets may have to be sold at a loss to fund redemptions.

For unit-linked contracts, market risk is substantially borne by the policyholder, but market risk exposure typically remains as fees earned for management are related to the market value of the linked assets.

Each insurance manufacturing subsidiary of the HSBC Group manages market risk by using some or all of the following techniques:

- for products with DPF, adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder;
- structuring asset portfolios to support liability cash flows;
- using derivatives, to a limited extent, to protect against adverse market movements or better match liability cash flows;
- periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked to savings and investment products;
- including features designed to mitigate market risk in new products; and
- selling, to the extent possible, the investments whose risk is considered unacceptable.

The French insurance manufacturing company monitors market risks exposures against mandated limits regularly. Exposures are aggregated and reported on a monthly basis to HSBC Group Insurance.

Standard measures for quantifying market risks are as follows:

- for interest rate risk, the sensitivities of the net present values of asset and expected liability cash flows, in total and by currency, to a one basis point parallel upward or downward shift in the discount curves used to calculate the net present values, and to a steepening of a flattening of these curves;
- for equity price risk, the total market value of equity holdings and the market value of equity holdings by region and country.

The standard measures are relatively straightforward to calculate and aggregate, but they have limitations. The most significant one is that a parallel shift in yield curves of one basis point does not capture the non-linear relationships between the values of certain assets and liabilities and interest rates. Non-linearity arises, for example, from investment guarantees and product features which enable policyholders to surrender their policies.

HSBC *Assurances Vie* (France) bears the shortfall if the yields on investments held to support contracts with guaranteed benefits are less than the returns implied by the guaranteed benefits.

On another hand, the sensitivity of some assets to the movement of the interest rates curve may vary itself according to the level of this curve. So the impact of an important movement of the interest rates curve can't be estimated on the sole basis of the impact of a small movement of the curve. Additional calculations will be necessary.

The group recognises these limitations and augments its standard measures with stress tests which examine the effect of a range of market rate scenarios on the aggregate annual profits and total equity of the insurance manufacturing companies after taking into consideration tax and accounting treatments where material and relevant. The results of these stress tests are reported to the HSBC Group Insurance Risk Committees every quarter.

The following table illustrates the effect of selected interest rates, equity price and credit spread scenarios on the profits for the year and total equity of HSBC *Assurances Vie* (France). Where appropriate, the impact of the stress on the present value of the in-force long-term insurance business asset ('PVIF') is included in the results of the sensitivity tests.

The relationship between the profit and total equity on the one hand, and on the other hand the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress.

The sensitivities are stated before allowance for the effect of management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

Sensitivity of risk factors related to the Insurance Company of the Group

	At	
	31 Dec 2021	31 Dec 2020
	€m	€m
+ 100 basis points parallel shift in yield curves	**80**	78
- 100 basis points parallel shift in yield curves	**(181)**	(175)
10 per cent increase in equity price	**37**	30
10 per cent decrease in equity price	**(40)**	(32)
50 basis points increase in reinvestment credit spread[1]	**36**	32
50 basis points decrease in reinvestment credit spread[1]	**(39)**	(35)

1 *PVIF sensitivity after tax.*

The variation of the PVIF sensitivity is mainly explained by the evolution of the economic environment in 2021, namely variations of the interest rates and of the equity markets.

Credit risk of insurance operations

Credit risk can give rise to losses through default and can lead to volatility in income statement and balance sheet figures through movements in credit spreads.

Management of the French insurance manufacturing company is responsible for the credit risk, quality and performance of their investment portfolios. The assessment of creditworthiness of issuers and counterparties is based primarily upon the opinion of internationally recognised rating agencies and other publicly available information.

Investment credit exposures are monitored against limits by the local insurance manufacturing subsidiaries, and are aggregated and reported to HSBC Group Insurance Credit Risk and HSBC Group Credit Risk. Stress testing is performed by HSBC Group Insurance on the investment credit exposures using credit spread sensitivities and default probabilities.

A number of tools are used to manage and monitor credit risk. These include a Credit Watch Report which contains a watch list of investments with current credit concerns and is circulated fortnightly to Senior Management in HSBC Group Insurance and to the individual Country Chief Risk Officers to identity investments which may be at greater risk of future impairment.

Credit quality

The following table presents an analysis of treasury bills, other eligible bills and debt securities within the French insurance business by measures of credit quality. The five credit quality classifications are defined on page 118.

Only assets supporting liabilities under non-linked insurance, investment contracts and shareholders' funds are included in the table, as financial risk on assets supporting linked liabilities is predominantly borne by the policyholder. 89 per cent of the assets included in the table are invested in investments rated as 'Strong' Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company.

Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company

	At 31 Dec 2021		
	Strong	**Good/Satisfactory**	**Total**
	€m	**€m**	**€m**
Financial assets designated at fair value	**3,108**	**263**	**3,371**
– treasury and other eligible bills	**—**	**—**	**—**
– debt securities	**3,108**	**263**	**3,371**
Financial investments	**9,478**	**1,329**	**10,807**
– treasury and other eligible bills	**—**	**—**	**—**
– debt securities	**9,478**	**1,329**	**10,807**
Total	**12,586**	**1,592**	**14,178**

Liquidity risk of insurance operations

Every quarter, HSBC *Assurances Vie* is required to complete and submit liquidity risk reports to the HSBC Group Insurance for collation and review. Liquidity risk is assessed in these reports by measuring changes in expected cumulative net cash flows under a series of stress scenarios designed to determine the effect of reducing expected available liquidity and accelerating cash outflows.

This is achieved, for example, by assuming new business or renewals are lower, and surrenders or lapses are greater, than expected.

The following tables show the expected undiscounted cash flows for insurance contract liabilities. The remaining contractual maturity of investment contract liabilities is all undated as in most cases, policyholders have the option to terminate their contracts at any time.

Expected maturity of insurance contract liabilities

	Expected cash flow (undiscounted)				
	< 1 year	1-5 years	5-15 years	> 15 years	Total
At 31 Dec 2021	€m	€m	€m	€m	€m
Non-linked insurance[1]	1,571	5,993	8,536	7,567	23,667
Linked life insurance[1]	2	8	11	10	31
Total	1,573	6,001	8,547	7,577	23,698

1 *Non-linked insurance includes remaining non-life business.*

Insurance risk

Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the insurer. Insurance risk is principally measured in terms of liabilities under the contracts.

The insurance risk profile of the HSBC French life insurance manufacturing business has not changed materially during 2021 despite the increase in liabilities to policyholders on these contracts to EUR 23.57 billion (2020: EUR 23.13 billion).

A principal risk faced by the HSBC French Insurance business is that, over time, the costs of acquiring and administering a contract, of claims and of benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates.

The following tables analyse the HSBC French insurance risk exposures by type of business.

Analysis of life insurance risk – liabilities to policyholders

	At	
	31 Dec 2021	31 Dec 2020
	€m	€m
Insurance contracts with DPF[1]	—	—
Credit Life	33	35
Annuities	80	79
Term assurance and other long-term contracts	11	12
Non-Life insurance	—	—
Total non-linked insurance[2]	124	126
Life linked	31	31
Investments contracts with DPF[1,3]	23,543	23,069
Liabilities under insurance contracts	23,698	23,226

1 *Insurance contracts and investments contracts with discretionary participation features ('DPF') give policyholders the contractual right to receive, as a supplement to their guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, but whose amount or timing is contractually at the discretion of the Group. These additional benefits are contractually based on the performance of a specific pool of contracts or assets, of the profit of the company issuing the contracts.*
2 *Non-linked insurance includes remaining non-life business.*
3 *Although investment contracts with DPF are financial investments, the Group continues to account for them as insurance contracts as permitted by IFRS.*

Sensitivities to changes in economic and non-economic assumptions

The Group's life insurance business is accounted for using the embedded value approach which, inter alia, provides a risk and valuation framework. The sensitivity of the present value of the in-force ('PVIF') long-term asset to changes in economic and non-economic assumptions is described below.

Please note that the value approach simulation used has been reviewed by several external auditors which have confirmed that this one is compliant with market standards.

Sensitivity of the PVIF to changes in economic assumptions

The following table shows the effects of the risk-free rate and discount rate movements on the value of PVIF at 31 December for HSBC Assurances Vie.

	2021[1]	2020[1]
	€m	€m
+ 100 basis points shift in risk-free rate	152	148
- 100 basis points shift in risk-free rate	(295)	(288)
+ 100 basis points shift in risk-discount rate	(3)	8
- 100 basis points shift in risk-discount rate	2	(11)

1 *Impacts on profits are shown before tax.*

Due to certain contractual characteristics, the sensitivities may be non-linear and the results of the sensitivity-testing should not be extrapolated to higher levels of stress. In calculating the scenario, the shift in the risk-free rate results in changes to investment returns, risk discount rates and bonus rates which are incorporated.

The sensitivities shown are at Ultimate Forward Rate and before actions that could be taken by management to mitigate impacts and before resultant changes in policyholder behaviour.

The sensitivities on the EIOPA Ultimate Forward Rate are presented below:

	Impact on PVIF as at 31/12/2021[1]	Impact on PVIF as at 31/12/2020[1]
	€m	€m
+ 100 basis points of Ultimate Forward Rate ('UFR')	20	27
- 100 basis points of Ultimate Forward Rate ('UFR')	(30)	(37)

1 *Impacts on profits are shown before tax.*

Sensitivity of the PVIF to changes in non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity at 31 December 2021 to reasonably possible changes in these non-economic assumptions at that date.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

The following table presents the PVIF sensitivity:

Sensitivity to lapse rates is dependent on the type of contracts being written.

For insurance contracts, the cost of claims is funded by premiums received and income earned on the investment portfolio supporting the liabilities. For a portfolio of term insurance, an increase in lapse rates typically has a negative effect on profit due to the loss of future premium income on the lapsed policies.

Expense rate risk is the exposure to a change in expense rates. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative impact on profits.

	Effect on total equity at 31 Dec 2021[1]	Effect on total equity at 31 Dec 2020[1]
	€m	€m
10% increase in mortality and/or morbidity rates	**(16)**	(14)
10% decrease in mortality and/or morbidity rates	**17**	14
10% increase in lapse rates	**(22)**	(19)
10% decrease in lapse rates	**25**	21
10% increase in expense rates	**(39)**	(43)
10% decrease in expense rates	**39**	43

1 *Impacts on profits are shown after tax.*

Increased expense is entirely borne by the insurer and so reduces profits.

The impact of redemption rates variations is mainly explained by savings activity. For example, an increase of redemptions generates a decrease of the contract management, and therefore, a negative impact on the insurer's profits.

Other information are available in the section Risk Factors on the page 98 and following.

Reputational risk management

There were no material changes to the policies and practices for the management of reputational risk within HSBC Continental Europe in 2021.

Overview

Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. 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.

Governance and structure

The development of policies, management and mitigation of reputational risk are co-ordinated through the Reputational Risk Client Selection Committees held by business line. These committees keep the RMM apprised of areas and activities presenting significant reputational risk and, where appropriate, make recommendations to the RMM to mitigate such risks. Significant issues posing reputational risk are also reported to the Board through the Risk Committee where appropriate.

Key risk management processes

Each business has established a governance process that empowers its Reputational Risk Client Selection Committee to address reputational risk issues at the right level, escalating decisions where appropriate.

The functions manage and escalate reputational risks within established operational risk frameworks.

Our policies set out our risk appetite and operational procedures for all areas of reputational risk, including financial crime prevention, regulatory compliance, conduct-related concerns, environmental impacts, human rights matters and employee relations.

Consolidated financial statements

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Consolidated income statement

for the year ended 31 December

	Notes	2021 €m	2020 €m
Net interest income		**987**	1,053
– interest income		**1,700**	1,861
– interest expense		**(713)**	(808)
Net fee income	2	**915**	858
– fee income	2	**1,304**	1,104
– fee expense	2	**(389)**	(246)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	3	**81**	72
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	3	**1,226**	161
Changes in fair value of designated debt and related derivatives	3	**(11)**	(4)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	3	**52**	87
Gains less losses from financial investments		**16**	14
Net insurance premium income	4	**1,632**	1,367
Other operating income		**294**	84
Total operating income		**5,192**	3,692
Net insurance claims and benefits paid and movement in liabilities to policyholders	4	**(2,829)**	(1,571)
Net operating income before change in expected credit losses and other credit impairment charges		**2,363**	2,121
Change in expected credit losses and other credit impairment charges		**(33)**	(289)
Net operating income		**2,330**	1,832
– employee compensation and benefits	5	**(914)**	(1,245)
– general and administrative expenses		**(1,051)**	(883)
– depreciation and impairment of property, plant and equipment and right of use assets		**(75)**	(329)
– amortisation and impairment of intangible assets and goodwill impairment	20	**(6)**	(320)
Total operating expenses		**(2,046)**	(2,777)
Operating profit/(loss)		**284**	(945)
Share of profit/(loss) in associates and joint ventures	17	**1**	—
Profit/(loss) before tax		**285**	(945)
Tax expense	7	**(17)**	(80)
Profit/(loss) for the year		**268**	(1,025)
Attributable to:			
– shareholders of the parent company		**269**	(1,022)
– non-controlling interests		**(1)**	(3)

Basic earnings per ordinary share	9	**2.74**	(10.43)
Diluted earnings per ordinary share	9	**2.74**	(10.43)
Dividends per ordinary share	8	**—**	—

Consolidated statement of comprehensive income

for the year ended 31 December

	Notes	2021 €m	2020 €m
Profit/(loss) for the period		**268**	(1,025)
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value though other comprehensive income:		**(34)**	32
– fair value gains/(losses)		**(27)**	47
– fair value gains/(losses) transferred to the income statement on disposal		**(18)**	(6)
– expected credit losses recognised in income statement		**(2)**	2
– income taxes		**13**	(11)
Cash flow hedges:		**(32)**	35
– fair value gains/(losses)	*14*	**(59)**	30
– fair value gains/(losses) reclassified to the income statement	*14*	**11**	17
– income taxes	*14*	**16**	(12)
Exchange differences and other		**26**	(20)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability:		**—**	(6)
– before income taxes	*5*	**3**	(4)
– income taxes		**(3)**	(2)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		**3**	(5)
– before income taxes	*23*	**7**	(4)
– income taxes		**(4)**	(1)
Equity instruments designated at fair value through other comprehensive income:		**1**	(1)
– fair value gains/(losses)		**1**	(1)
– income taxes		**—**	—
Other comprehensive income/(expense) for the period, net of tax		**(36)**	35
Total comprehensive income/(expense) for the period		**232**	(990)
Attributable to:			
– shareholders of the parent company		**233**	(987)
– non-controlling interests		**(1)**	(3)
Total comprehensive income/(expense) for the period		**232**	(990)

Consolidated balance sheet

at 31 December

	Notes	2021 €m	2020 €m
Assets			
Cash and balances at central banks		**38,063**	29,508
Items in the course of collection from other banks		**156**	224
Trading assets	*10*	**12,921**	12,954
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	*13*	**13,345**	11,648
Derivatives	*14*	**39,634**	56,475
Loans and advances to banks		**6,832**	6,781
Loans and advances to customers		**59,612**	56,225
Reverse repurchase agreements – non-trading		**20,487**	21,522
Financial investments	*15*	**16,110**	19,167
Assets held for sale		**2**	3
Prepayments, accrued income and other assets	*21*	**14,538**	21,735
Current tax assets		**162**	146
Interests in associates and joint ventures	*17*	**2**	1
Goodwill and intangible assets	*20*	**763**	579
Deferred tax assets	*7*	**37**	131
Total assets		**222,664**	237,099
Liabilities			
Deposits by banks		**18,548**	17,204
Customer accounts		**70,144**	61,393
Repurchase agreements – non-trading		**8,731**	10,984
Items in the course of transmission to other banks		**280**	198
Trading liabilities	*22*	**16,247**	17,828
Financial liabilities designated at fair value	*23*	**13,733**	16,892
Derivatives	*14*	**35,895**	55,714
Debt securities in issue		**7,414**	3,605
Accruals, deferred income and other liabilities	*24*	**18,122**	20,117
Current tax liabilities		**66**	73
Liabilities under insurance contracts	*4*	**23,698**	23,228
Provisions	*25*	**234**	397
Deferred tax liabilities	*7*	**–**	131
Subordinated liabilities	*26*	**1,876**	1,876
Total liabilities		**214,988**	229,640
Equity			
Called up share capital	*29*	**491**	491
Share premium account	*29*	**2,137**	2,137
Other equity instruments	*8*	**750**	750
Other reserves		**1,653**	1,688
Retained earnings		**2,636**	2,368
Total shareholders’ equity		**7,667**	7,434
Non-controlling interests		**9**	25
Total equity		**7,676**	7,459
Total liabilities and equity		**222,664**	237,099

Consolidated statement of cash flows

for the year ended 31 December

	Notes	2021 €m	2020 €m
Profit/(loss) before tax		**285**	(945)
Adjustments for non-cash items:		**(433)**	1,699
– depreciation, amortisation and impairment of property plant and equipment, right of use and intangibles[1]		**81**	649
– net gain from investing activities		**—**	(15)
– share of profits in associates and joint ventures		**(1)**	—
– change in expected credit losses gross of recoveries and other credit impairment charges		**37**	287
– provisions including pensions		**4**	254
– share-based payment expense	5	**15**	13
– other non-cash items included in profit before tax		**(180)**	128
– elimination of exchange differences		**(389)**	383
Changes in operating assets and liabilities		**6,982**	(1,423)
– change in net trading securities and derivatives		**(4,585)**	(3,676)
– change in loans and advances to banks and customers		**(2,874)**	1,112
– change in reverse repurchase agreements – non-trading		**3,849**	13,299
– change in financial assets designated at fair value and otherwise mandatorily measured at fair value		**(1,697)**	309
– change in other assets		**6,683**	(7,279)
– change in deposits by banks and customer accounts		**10,095**	8,934
– change in repurchase agreements – non-trading		**(2,253)**	(9,229)
– change in debt securities in issue		**3,809**	(6,177)
– change in financial liabilities designated at fair value		**(3,151)**	(2,065)
– change in other liabilities		**(2,854)**	3,420
– tax paid		**(40)**	(71)
Net cash from operating activities		**6,834**	(669)
Purchase of financial investments		**(2,687)**	(5,786)
Proceeds from the sale and maturity of financial investments		**5,108**	4,202
Net cash flows from the purchase and sale of property plant and equipment		**(36)**	(47)
Net investment in intangible assets		**(6)**	(38)
Net cash flow on disposal/acquisition of subsidiaries, business, associates and joint ventures		**—**	—
Net cash from investing activities		**2,379**	(1,669)
Issue of ordinary share capital and other equity instruments	29	**—**	—
Subordinated loan capital issued	26	**—**	500
Dividends paid to shareholders of the parent company	8	**(30)**	(30)
Dividends paid to non-controlling interests		**—**	—
Net cash from financing activities		**(30)**	470
Net increase/(decrease) in cash and cash equivalents		**9,183**	(1,868)
Cash and cash equivalents at beginning of the period		**47,567**	49,616
Exchange differences in respect of cash and cash equivalents		**249**	(181)
Cash and cash equivalents at 31 Dec		**56,999**	47,567
Cash and cash equivalents comprise of:[2]			
– cash and balances at central banks		**38,063**	29,508
– items in the course of collection from other banks		**156**	224
– loans and advances to banks of one month or less		**4,333**	3,711
– reverse repurchase agreement with banks of one month or less		**12,052**	9,238
– treasury bills, other bills and certificates of deposit less than three months		**71**	299
– net settlement accounts and cash collateral		**2,604**	4,785
– less: items in the course of transmission to other banks		**(280)**	(198)
Cash and cash equivalents at 31 Dec		**56,999**	47,567

1 *Includes EUR 504 million of non-financial asset and goodwill impairment in 2020.*
2 *At 31 December 2021, EUR 4.3 billion (2020: EUR 5.5 billion) was not available for use by HSBC Continental Europe of which EUR 0.9 billion (2020: EUR 1.2 billion) related to mandatory deposits at central banks.*

Interest received was EUR 1,841 million (2020: EUR 2,117 million), interest paid was EUR 1,143 million (2020: EUR 1,354 million) and dividends received EUR 15 million (2020: EUR 2 million).

Consolidated statement of changes in equity

for the year ended 31 December

	Called up share capital and share premium	Other equity instruments	Retained earnings[3]	Financial assets at Fair Value through OCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
				Other reserves						
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2021	**2,628**	**750**	**2,412**	**78**	**69**	**(47)**	**1,588**	**7,478**	**25**	**7,503**
Profit/(loss) for the period	**—**	**—**	**269**	**—**	**—**	**—**	**—**	**269**	**(1)**	**268**
Other comprehensive income/(expense) (net of tax)	**—**	**—**	**3**	**(33)**	**(32)**	**26**	**—**	**(36)**	**—**	**(36)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**(34)**	**—**	**—**	**—**	**(34)**	**—**	**(34)**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**1**	**—**	**1**
– cash flow hedges	**—**	**—**	**—**	**—**	**(32)**	**—**	**—**	**(32)**	**—**	**(32)**
– re-measurement of defined benefit asset/liability	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**3**	**—**	**3**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**26**	**—**	**26**	**—**	**26**
Total comprehensive income/(expense) for the period	**—**	**—**	**272**	**(33)**	**(32)**	**26**	**—**	**233**	**(1)**	**232**
– capital securities issued during the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– dividends to shareholders[2]	**—**	**—**	**(30)**	**—**	**—**	**—**	**—**	**(30)**	**—**	**(30)**
– net impact of equity-settled share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– other Movements	**—**	**—**	**(18)**	**—**	**—**	**—**	**4**	**(14)**	**(15)**	**(29)**
Total Other	**—**	**—**	**(48)**	**—**	**—**	**—**	**4**	**(44)**	**(15)**	**(59)**
At 31 Dec 2021	**2,628**	**750**	**2,636**	**45**	**37**	**(21)**	**1,592**	**7,667**	**9**	**7,676**

1 *At 31 December 2021, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of EUR (59) million.*
2 *Dividends corresponds to coupon payment on other equity instrument (AT1 capital) amounting to EUR 30 million.*
3 *Retrospective restatement of the opening balance of retained earnings (EUR 44 million) following the adoption of changes in methodology for the recognition of pension liabilities (EUR 35 million attributable to a change in accrual methodology, EUR 9 million attributable to the change in starting point for the accrual as a result of an IFRIC final agenda decision in relation to the period of service over which employee benefits are attributed). Refer to Note 1.*

Consolidated statement of changes in equity (continued)

for the year ended 31 December

	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Financial assets at Fair Value through OCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
				Other reserves						
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2020	2,628	750	3,424	47	34	(27)	1,587	8,443	28	8,471
Profit/(loss) for the period	—	—	(1,022)	—	—	—	—	(1,022)	(3)	(1,025)
Other comprehensive income/(expense) (net of tax)	—	—	(11)	31	35	(20)	—	35	—	35
– debt instruments at fair value through other comprehensive income	—	—	—	32	—	—	—	32	—	32
– equity instruments designated at fair value through other comprehensive income	—	—	—	(1)	—	—	—	(1)	—	(1)
– cash flow hedges	—	—	—	—	35	—	—	35	—	35
– re-measurement of defined benefit asset/liability	—	—	(6)	—	—	—	—	(6)	—	(6)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(5)	—	—	—	—	(5)	—	(5)
– exchange differences and other	—	—	—	—	—	(20)	—	(20)	—	(20)
Total comprehensive income/(expenses) for the year	—	—	(1,033)	31	35	(20)	—	(987)	(3)	(990)
– capital securities issued	—	—	—	—	—	—	—	—	—	—
– dividends to shareholders[2]	—	—	(30)	—	—	—	—	(30)	—	(30)
– net impact of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	—
– other Movements	—	—	7	—	—	—	1	8	—	8
Total Other	—	—	(23)	—	—	—	1	(22)	—	(22)
At 31 Dec 2020	2,628	750	2,368	78	69	(47)	1,588	7,434	25	7,459

1 *At 31 December 2020, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of EUR (62) million.*
2 *Dividends corresponds to coupon payment on other equity instrument (AT1 capital) amounting to EUR 30 million.*

1 Basis of preparation and significant accounting policies

The consolidated financial statements of HSBC Continental Europe are available upon request from the HSBC Continental Europe registered office at 38 Avenue Kléber – 75116 Paris or on the websites www.hsbc.com and www.hsbc.fr.

These consolidated financial statements were approved by the Board of Directors on 22 February 2022.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC Continental Europe have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). There were no unendorsed standards effective for the year ended 31 December 2021 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2021

There were no new accounting standards that had a significant effect on HSBC Continental Europe in 2021.

Recent developments of the IFRS Interpretations Committee ('IFRIC')

IAS19 Employee benefits

In April 2021, the IFRIC issued a final agenda decision clarifying the period of service over which employee benefits are attributed under IAS19 for defined benefit plans paying a lump sum at retirement and where the amount of retirement benefit to which an employee is entitled is dependent on the length of employee service before retirement age and is capped at a specified number of consecutive years of service. As a result, the IFRIC clarified that the liability should be recognised over the specified service period prior to the retirement date.

As a result, HSBC Continental Europe reassessed its retirement indemnity provisions. This led to a reduction in provisions of EUR 44 million, recognised as a retrospective restatement of the opening balance of retained earnings as at 1 January 2021.

Refer to Note 5 Employee compensation and benefits.

IAS38 Intangible assets

In March 2021, the IFRIC issued a final agenda decision regarding the principles to apply for configuration or customisation costs in a Software as a Service (SaaS) arrangement. The IFRIC concluded that the standard provide an adequate basis to determine the accounting and consequently decided not to add a standard-setting project to the work plan. The analysis of the IFRIC agenda decision is under progress. Impacts are not expected to be material.

Targeted Long-Term Refinancing Operation ('TLTRO') III

In February 2022, the IFRIC continued its discussions on the treatment of the interest benefit arising from funding via the Targeted Long Term Refinancing Operations (TLTRO) III and the agenda decision is expected to be published following the meeting of the IASB in March 2022. See Note 1.3.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2021 that are applicable to HSBC Continental Europe. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023. HSBC Continental Europe expects they will have an insignificant effect, when adopted, on the consolidated financial statements.

New IFRS

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' issued the 18 May 2017 and amended the 25 June 2020 has been adopted by the European Union the 19 November 2021. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The Group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Additionally, the impact on the forecast future returns of our insurance business is dependent on the growth, duration and composition of our insurance contract portfolio. Therefore, the likely financial impact of its implementation remains uncertain. However, we have the following expectations as to the impact compared with our current accounting policy for insurance contracts, which is set out in policy 1.2(j) below:

- Under IFRS 17, there will be no present value of in-force long-term insurance business ('PVIF') asset recognised. Instead the estimated future profit will be included in the measurement of the Insurance contract liability as the contractual service margin ('CSM'), and this will be gradually recognised in revenue as services are provided over the duration of the insurance contract. While the profit over the life of an individual contract will be unchanged, its emergence will be later under IFRS 17. The replacement of the PVIF asset with the CSM, which is a liability, will reduce both tangible and overall equity. The PVIF asset will be eliminated to equity on transition, together with other adjustments to assets and liabilities to reflect IFRS 17 measurement requirements and any consequential amendments to financial assets in the scope of IFRS 9;
- IFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Changes in market conditions for certain products measured under the general measurement approach are immediately recognised in profit or loss, whilst changes in market conditions for other products measured under the variable fee approach are included in the measurement of CSM;
- In accordance with IFRS 17, directly attributable costs will be incorporated in the CSM and recognised in the results of insurance services as a reduction in reported revenue, as profit is recognised over the duration of insurance contracts. Costs that are not directly attributable remain in operating expenses. This will result in a reduction in operating expenses compared to the current accounting policy;
- We intend to provide an update on the likely financial impacts on our insurance business in later 2022 financial reports, when we expect that this will be reasonably estimable.

(c) Foreign currencies

The functional currency of HSBC Continental Europe is euros which is also the presentational currency of HSBC Continental Europe's consolidated financial statements and, the presentational currency of the consolidated financial statements of the bank and the Group is sterling.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not € are translated into HSBC Continental Europe's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into € at the average rates of exchange for the reporting period.

Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts 2021* as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments and insurance contracts are included in the 'Risk' section on pages 87 to 174;
- the 'Own funds' disclosure is included in the 'Capital and leverage management' section on page 145.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted, as the 'critical accounting estimates and judgements' in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the group's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Segmental analysis

HSBC Continental Europe chief operating decision maker is the Chief Executive, supported by the Chief Executive deputy and the Executive Committee. Operating segments are reported in a manner consistent with the internal reporting. During 2021, HSBC Continental Europe changed its operating segments. See Note 1.3 Significant events during the year.

Measurement of segmental assets, liabilities, income and expenses is in accordance with HSBC Continental Europe's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted on arm's length. Shared costs are included in segments on the basis of the actual recharges made.

The types of products and services from which each reportable segment derives its revenue are discussed in the 'Strategic Report – Products and services' on page 6.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that HSBC Continental Europe and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the global Covid-19 pandemic has had on HSBC Continental Europe's operations, as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The bank's investments in subsidiaries are stated at cost less impairment losses.

Critical accounting estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	• The future cash flows of each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to the investment. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control.

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. HSBC Continental Europe's CGUs are the global businesses within principal operating entities. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU.

The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Critical accounting estimates and judgements

The review of goodwill and non-financial assets (see Note 1.2(n)) for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	• The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to individual CGUs. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. • Key assumptions used in estimating goodwill impairment and non-financial assets are described in Note 20.

HSBC Continental Europe sponsored structured entities

HSBC Continental Europe is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. HSBC Continental Europe is generally not considered a sponsor if the only involvement with the entity is merely administrative.

Interests in associates and joint arrangements

Joint arrangements are investments in which HSBC Continental Europe, together with one or more parties, has joint control. Depending on HSBC Continental Europe's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. HSBC Continental Europe classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

HSBC Continental Europe recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of HSBC Continental Europe based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisitions of interests in joint ventures and associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by HSBC Continental Europe for funding purposes that are designated under the fair value option and derivatives managed in conjunction with those debt instruments are included in interest expense.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

HSBC Continental Europe generates fee income from services provided at a fixed price over time, such as account service and card fees, or when HSBC Continental Europe delivers a specific transaction at the point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and HSBC Continental Europe performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

HSBC Continental Europe acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades HSBC Continental Europe acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

HSBC Continental Europe recognises fees earned on transaction-based arrangements at a point in time when we have fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where HSBC Continental Europe offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'. This includes interest income, interest expense and dividend income in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above which can be separately identifiable from other trading derivatives.
- 'Changes in fair value of designated debt instruments and related derivatives': Interest paid on the debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces an accounting mismatch.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'. This includes interest on instruments which fail the SPPI test. See (d) below.

The accounting policies for insurance premium income are disclosed in Note 4.

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, HSBC Continental Europe recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC Continental Europe manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 11, 'Fair values of financial instruments carried at fair value'.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements	Estimates
• An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5 per cent of the instrument's valuation is driven by unobservable inputs. • Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).	• Details on HSBC Continental Europe's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonable possible alternative assumptions in determining their fair value are set out in Note 11.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. HSBC Continental Europe accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

HSBC Continental Europe may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When HSBC Continental Europe intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

(e) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when HSBC enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Equity securities measured at fair value with fair value movements presented in other comprehensive income ('OCI')

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when HSBC Continental Europe enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when HSBC Continental Europe enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by HSBC Continental Europe are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial assets and financial liabilities under unit-linked and non-linked investment contracts: A contract under which HSBC does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, at least some of the assets would otherwise be measured at either fair value through other comprehensive income or amortised cost. The related financial assets and liabilities are managed and reported to management on a fair value basis.

  Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.
- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(h) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss, with changes in fair value generally recorded in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis. Where the derivatives are managed with debt securities issued by HSBC Continental Europe that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. HSBC Continental Europe uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net trading income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(i) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (Stage 3)

HSBC Continental Europe determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit-impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be purchased or originated credit-impaired ('POCI') and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications other than renegotiated loans

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (Stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30 bps

For CRRs greater than 3.3 which are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle PDs and through-the-cycle migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch

Further information about the 23-grade scale used for CRR can be found on page 118.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk – (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in Stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, HSBC Continental Europe calculates ECL using three main components, a probability of default, a loss given default ('LGD") and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

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

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC Continental Europe is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC Continental Europe exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC Continental Europe remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the term period covers 95 % of observed transfers from Stage 2 to Stage 3. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

HSBC Continental Europe applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 126.

Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 requires HSBC Continental Europe to make a number of judgements, assumptions and estimates. The most significant are set out below:

JUDGEMENTS

- Definition of what is considered to be a significant increase in credit risk.
- Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.
- Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.

ESTIMATES

- The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' on pages 126 to 130 set out the assumptions used in determining ECL. An indication of the sensitivity is available in the HSBC Bank plc Annual Report and Account to the application of different weightings being applied to different economic assumptions

(j) Insurance contracts

A contract is classified as an insurance contract where the entity accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, HSBC Continental Europe issues investment contracts with discretionary participation features ('DPF') which are also accounted for as insurance contracts as required by IFRS 4 'Insurance Contracts'.

Net insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance claims and benefits paid and movements in liabilities to policyholders

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

Future profit participation on insurance contracts with discretionary participation features

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect the actual performance of the investment portfolio to date and management's expectation of the future performance of the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. The benefits to policyholders may be determined by the contractual terms, regulation or past distribution policy.

Investment contracts with DPF

While investment contracts with DPF are financial instruments, they continue to be treated as insurance contracts as required by IFRS 4. HSBC Continental Europe therefore recognises the premiums for these contracts as revenue and recognises as an expense the resulting increase in the carrying amount of the liability.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable.

Present value of in-force long-term insurance business

HSBC Continental Europe recognises the value placed on insurance contracts, and investment contracts with DPF, that are classified as long-term and in-force at the balance sheet date, as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. The present value of in-force long-term insurance business ('PVIF') is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts.

The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

Critical accounting estimates and judgements

The valuation of the PVIF is dependent on economic assumptions (e.g. future investment returns) and non-economic assumptions (e.g. related to policyholder behaviour or demographics). See Note 20 PVIF.

JUDGEMENTS

- The PVIF asset represents the value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. It is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees.

ESTIMATES

- The assumptions are reassessed at each reporting date and changes in the estimates which affect the value of PVIF, are reflected in the income statement. Sensitivities to market risk factors and non-economic risk factors are included in sections marked as audited on pages 173 and 174 respectively.

(k) Employee compensation and benefits

Share-based payments

HSBC Continental Europe enters into cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

HSBC Continental Europe operates a number of pension schemes including defined benefit and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

During 2021, HSBC Continental Europe reassessed its retirement indemnity provisions as a result of the issuance of an IFRIC final agenda decision clarifying the period of service over which employee benefits are attributed under IAS 19. See Note 1.1(a) and Note 5 Employee compensation and benefits.

(l) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Critical accounting estimates and judgements

The recognition of deferred tax assets depends on judgements.

JUDGEMENTS

- Assessing the probability and sufficiency of future taxable profits, considering the availability of evidence to support the recognition of deferred tax assets taking into account the inherent risk in long term forecasting and drivers of recent history of tax losses where applicable taking into account the future reversal of existing taxable temporary differences and tax planning strategies including corporate reorganizations. Specific judgements supporting deferred tax assets are described in Note 7.

(m) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below:

JUDGEMENTS

- Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations.
- Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.

ESTIMATES

- Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

The bank has issued financial guarantees and similar contracts to other HSBC group entities. The Group elects to account for certain guarantees as insurance contracts in the financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

(n) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the global business within the principal operating entities.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying value of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs.

The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs (see Note 21). When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not recognised with respect to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a reversal in the indicators of impairment and/or there has been a change in the recoverable amount assessed. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

The review of goodwill and other non-financial assets for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as described in the Critical accounting estimates and judgements in Note 1.2(a).

Recoverable amounts for individual assets

Recoverable amount is the higher of fair value less cost of disposal ('FVLCOD') or value in use ('VIU'). Some non-financial assets have their own recoverable amount in the form of FVLCOD, for example external valuation of market price for property. ROU assets that are legally permissible to be sub-leased will have FVLCOD calculated as the present value of potential sub-leasing income, less any estimated penalty/cost/new liability and ROU assets that can be novated or cancelled will have their FVLCOD calculated as the amount of lease liability extinguished less any estimated penalty/cost/new liability, provided that the lease liability approximates the fair value.

It is not always necessary to determine both the FVLCOD and VIU for impairment purposes. If the FVLCOD is higher than the carrying amount of the non-financial asset, no impairment is recognised. However, if the FVLCOD of the individual asset is not higher than the respective carrying amount, it is necessary to consider the VIU in order to assess whether impairment should be recognised.

Non-financial assets are generally not used in isolation to generate cash flows that are independent from other assets. Therefore, the VIU of the non-financial assets depends on the VIU of the CGUs in which they are recorded. In addition, some non-financial assets do not have their own FVLCOD, such as software (including software under development). Therefore, they rely solely on the recoverable amount of the CGU where they are recorded.

Capitalisation of new non-financial assets when the CGU is impaired

For tangible and intangible assets that do not have their own recoverable amount, the future economic benefits will flow to the entity only through usage via the CGU. When the CGU is impaired, newly acquired tangible and intangible assets are recognised only if these assets have a recoverable amount at the individual asset level. These assets will be recognised and impaired down to their respective recoverable amount subsequent to initial recognition. When the CGU is no longer impaired on a future date, previously recognised impairment could be reversed. When the CGU is impaired, new acquisition of tangible and intangible assets without recoverable amount at the individual asset level will be expensed immediately.

(o) Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The benefit of a government loan at a below market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan recognised and the proceeds received. When identifying the costs for which the benefit of the loan is intended to compensate, the conditions and obligations that have been, or must be, met are considered. Government grants are recognised when there is reasonable assurance that the conditions attached with them will be complied with and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognise as expense the related costs for which the grants are intended to compensate.

Critical accounting estimates and judgements

JUDGEMENTS

- Determining whether there is reasonable assurance that the conditions attached with government grants will be complied with and that the grants will be received.

1.3 Significant events during the year

Planned sale of the retail banking business in France

Further to the strategic review, HSBC Continental Europe signed on 25 November 2021 a Framework Agreement with Promontoria MMB SAS ('My Money Group') and its subsidiary Banque des Caraïbes SA, regarding the planned sale of HSBC Continental Europe's retail banking business in France. This followed the signing of a Memorandum of Understanding on 18 June 2021 and the conclusion of the information and consultation processes of the parties with their respective works councils.

In parallel, several other agreements have been entered into aiming to ensure continuity of service for HSBC Continental Europe's retail banking customers who hold asset management products with HSBC Global Asset Management (France) and HSBC REIM (France), and protection and/or life-wrapped insurance products with HSBC Assurances Vie (France).

The sale, which is subject to regulatory approvals and the satisfaction of other relevant conditions, includes: HSBC Continental Europe's French retail banking business; the Crédit Commercial de France ('CCF') brand; and HSBC Continental Europe's 100 per cent ownership interest in HSBC SFH (France) and its 3 per cent ownership interest in Crédit Logement. The sale would generate a pre-tax loss including related transaction costs for HSBC Continental Europe now estimated at EUR 2 billion. The signing of the framework for the planned sale of the French retail banking business resulted in the recognition of a provision for loss on disposal in the parent company statements of HSBC Continental Europe prepared on a French GAAP basis, contributing to the recognition of an overall loss in the French tax return. This provision was considered tax deductible (tax value of EUR 382 million). A deferred tax liability of the same amount arises in the consolidated statements on an IFRS basis as a consequence of the temporary difference in accounting treatment between French GAAP and IFRS in respect of the loss. The vast majority of the estimated loss for the write down of the disposal group to fair value less costs to sell will be recognised when it is classified as held for sale in accordance with IFRS 5, which is currently anticipated to be in 2022. Subsequently, the disposal group classified as held for sale will be re-measured at the lower of carrying amount and fair value less costs to sell at each reporting period. Any remaining gain or loss not previously recognised shall be recognised at the date of derecognition which is currently anticipated to be in 2023.

As at 31 December 2021, the value of the total assets of the business to be sold was EUR 24.1 billion, including EUR 21.9 billion of customer loan balances and the value of customer accounts was EUR 19.9 billion. See page 4 'HSBC strategy implemented in Continental Europe'.

Change in reportable segments

Effective from fourth quarter of 2021, Global Banking and Markets ('GBM') in HSBC Continental Europe has been re-segmented into Market & Securities Services ('MSS'), Global Banking ('GB') and GBM Other to align with the reorganised GBM management structure in HSBC Continental Europe and its parent company HSBC Bank plc and internal reporting to the Executive Committee and Chief Operating Decision Maker ('CODM'). This does not change the HSBC Group's management of its global GBM strategy.
Comparative data have been re-presented accordingly.

Funding through Targeted Long-Term Refinancing Operation ('TLTROs')

In September 2021, HSBC Continental Europe repaid EUR 0.5 billion in TLTRO III funding which now amounts to EUR 11.2 billion as of December 2021. TLTRO III funding is issued below market rates, as they are issued below the Main Refinancing Operations ('MRO') rate and at or below the deposit facility rate. TLTRO III borrowing rates may be equal to the market rate, MRO for the period before 24 June 2020 and after 23 June 2022 or MRO minus 50 bps over the period 24 June 2020 to 23 June 2022. TLTRO III Borrowing rates may be equal to MRO minus 50 bps or at the deposit facility (FD) rate minus 50 bps over the period 24 June 2021 to 23 June 2022, capped at -1 per cent, and equal to the deposit facility rate during the remaining period of the TLTRO III, if the entity's benchmark lending is maintained at a prescribed level over specific periods (the lending target).

As at 31 December 2021, HSBC Continental Europe judged that it had complied with the conditions attached to the second TLTRO III lending benchmark and that the below-market rate foreseen (FD minus 50bps) in the second twelve month period will be received.

The benefit of the below market rate of interest has been treated at inception and subsequently as a government grant in accordance with IAS20, 'Accounting for Government Grants and disclosure of Government Assistance'.

As a result, EUR 115 million have been recognised in Interest income in 2021 financial statements of which EUR 28 million in respect of meeting the second lending benchmark and EUR 28 million are expected to be recognised in 2022 as a compensation to the support provided to the real economy during the period. Refer to Note 1.1 (a) and 1.2 (o) for related accounting policies and judgements.

Repayments and new issuances

In June 2021, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturities of seven and eight years for a total notional amount of EUR 800 million subscribed by HSBC Bank plc, recognised as debt securities in issue.

In December 2021, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturities of three and four years for a total notional amount of EUR 600 million subscribed by HSBC Bank plc, recognised as debt securities in issue.

2 Net fee income

Net fee income by product type

	At	
	31 Dec 2021	31 Dec 2020
	Total	Total
	€m	€m
Account services	**142**	139
Funds under management	**215**	178
Cards	**35**	34
Credit facilities	**151**	136
Broking income	**32**	10
Unit trusts	**6**	4
Imports/exports	**16**	15
Remittances	**71**	46
Underwriting	**143**	88
Global custody	**42**	34
Insurance agency commission	**19**	19
Other[2]	**432**	401
Fee income	**1,304**	1,104
Less: fee expense	**(389)**	(246)
Net fee income	**915**	858

Net fee income by global business

	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services[1]	Global Banking[1]	Global Banking and Markets Other[1]	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2021							
Fee income	487	249	284	356	73	(145)	1,304
Less: fee expense	(203)	(3)	(195)	(77)	(54)	143	(389)
Net fee income	284	246	89	279	19	(2)	915
At 31 Dec 2020							
Fee income	444	232	234	288	26	(120)	1,104
Less: fee expense	(185)	(4)	(133)	(25)	(19)	120	(246)
Net fee income	259	228	101	263	7	—	858

1 *A change in reportable segments was made during 2021. Comparative data has been re-presented accordingly.*
2 *Other includes intercompany fees and third party fees not included in other categories.*

Net fee income includes EUR 589 million in fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2020: EUR 495 million), EUR 189 million in fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2020: EUR 121 million), EUR 257 million in fees earned on trust and other fiduciary activities (2020: EUR 215 million) and EUR 182 million in fees payable relating to unit trust and other fiduciary activities (2020: EUR 152 million).

3 Net income/(expense) from financial instruments measured at fair value through profit or loss

	2021	2020
	€m	€m
Net income/(expense) arising on:		
Net trading activities	**174**	283
Other instruments designated and mandatorily measured at fair value and related derivatives	**(93)**	(211)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	**81**	72
Financial assets held to meet liabilities under insurance and investment contracts	**1,228**	161
Liabilities to customers under investment contracts	**(2)**	—
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**1,226**	161
Derivatives managed in conjunction with HSBC Continental Europe's issued debt securities	**(195)**	59
Other changes in fair value	**184**	(63)
Changes in fair value of designated debt and related derivatives	**(11)**	(4)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**52**	87
Year ended 31 Dec	**1,348**	316

4 Insurance business

Through its insurance subsidiary, HSBC Continental Europe issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which HSBC Continental Europe accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4.

Insurance contracts are accounted for as follows:

Insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance premium income

	Non-linked insurance	Linked-life insurance	Investment contracts with DPF[1]	Total
	€m	€m	€m	€m
Gross insurance premium income	**55**	**—**	**1,580**	**1,635**
Reinsurers' share of gross insurance premium income	**(3)**	**—**	**—**	**(3)**
Year ended 31 Dec 2021	**52**	**—**	**1,580**	**1,632**
Gross insurance premium income	58	—	1,312	1,370
Reinsurers' share of gross insurance premium income	(3)	—	—	(3)
Year ended 31 Dec 2020	55	—	1,312	1,367

1 *Discretionary participation features.*

Insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Reinsurance recoveries are accounted for in the same period as the related claim.

Future profit participation on insurance contracts with discretionary participation features

In accordance with the *Plan comptable des assurances*, a discretionary participation is allocated to non-linked investments contract based on actual net financial income.

Assets backing non-linked investments contracts are valuated at their fair value. The fair value variation generated during the year is allocated in deferred discretionary participation. At least 85 per cent is allocated to policyholders; the remaining amount is accounted for as deferred participation and will be distributed to customers within eight years.

Net insurance claims and benefits paid and movement in liabilities to policyholders

	Non-linked insurance	**Linked-life insurance**	**Investment contracts with DPF[1]**	**Total**
	€m	**€m**	**€m**	**€m**
Gross claims and benefits paid incurred and movement in liabilities	**15**	**2**	**2,812**	**2,829**
– claims, benefits and surrenders paid	**17**	**2**	**1,807**	**1,826**
– movement in liabilities	**(2)**	**—**	**1,005**	**1,003**
Reinsurers' share of claims incurred and benefits paid and movement in liabilities	**—**	**—**	**—**	**—**
– claims, benefits and surrenders paid	**—**	**—**	**—**	**—**
– movement in liabilities	**—**	**—**	**—**	**—**
Year ended 31 Dec 2021	**15**	**2**	**2,812**	**2,829**

Net insurance claims and benefits paid and movement in liabilities to policyholders

	Non-linked insurance	Linked-life insurance	Investment contracts with DPF[1]	Total
	€m	€m	€m	€m
Gross claims and benefits paid incurred and movement in liabilities	15	1	1,555	1,571
– claims, benefits and surrenders paid	15	2	1,748	1,765
– movement in liabilities	—	(1)	(193)	(194)
Reinsurers' share of claims incurred and benefits paid and movement in liabilities	—	—	—	—
– claims, benefits and surrenders paid	—	—	—	—
– movement in liabilities	—	—	—	—
Year ended 31 Dec 2020	15	1	1,555	1,571

1 *Discretionary participation features.*

Liabilities under insurance contracts

	Non-linked insurance	**Linked-life insurance**	**Investment contracts with DPF[1]**	**Total**
	€m	**€m**	**€m**	**€m**
Gross liabilities under insurance contracts at 1 Jan 2021	**126**	**32**	**23,070**	**23,228**
Claims and benefits paid	**(17)**	**(2)**	**(1,807)**	**(1,826)**
Increase in liabilities to policyholders	**15**	**2**	**2,812**	**2,829**
Exchange differences and other movements[2]	**—**	**—**	**(533)**	**(533)**
Gross liabilities under insurance contracts at 31 Dec 2021	**124**	**32**	**23,542**	**23,698**
Reinsurers' share of liabilities under insurance contracts	**(2)**	**—**	**—**	**(2)**
Net liabilities under insurance contracts at 31 Dec 2021	**122**	**32**	**23,542**	**23,696**
Gross liabilities under insurance contracts at 1 Jan 2020	126	34	23,132	23,292
Claims and benefits paid	(15)	(2)	(1,748)	(1,765)
Increase in liabilities to policyholders	15	1	1,555	1,571
Exchange differences and other movements[2]	—	(1)	131	130
Gross liabilities under insurance contracts at 31 Dec 2020	126	32	23,070	23,228
Reinsurers' share of liabilities under insurance contracts	(2)	—	—	(2)
Net liabilities under insurance contracts at 31 Dec 2020	124	32	23,070	23,226

1 *Discretionary participation features.*
2 *'Exchange differences and other movements' includes movements in liabilities arising from net unrealised investment gains recognised in other comprehensive income.*

The key factors contributing to the movement in liabilities to policyholders included death claims, surrenders, lapses, liabilities to policyholders created at the initial inception of the policies, the declaration of bonuses and other amounts attributable to policyholders.

5 Employee compensation and benefits

Employee compensation and average number of employees

	2021	2020
	€m	€m
Wages and salaries[1]	636	961
Social security costs	257	286
Post-employment benefits[2, 3]	21	(2)
Year ended 31 Dec	**914**	1,245

1 *Includes restructuring provision of EUR 278 million in 2020 (refer to Note 1.3 in the 2020 HSBC Continental Europe Universal Registration Document) out of which there was a reversal of EUR 25 million in 2021.*
2 *Includes reversal of pension indemnity provision of EUR 21 million in 2020 related to restructuring plans.*
3 *Includes re-invoicing of the staff costs to and from the HSBC Group.*

Average number of persons employed by HSBC Continental Europe during the year

	2021	2020
Wealth and Personal Banking	4,039	4,155
Commercial Banking	1,396	1,652
Market and Securities Services[1]	530	599
Global Banking[1]	312	393
Global Banking and Markets Other[1]	84	153
Corporate Centre	14	14
Support functions and others[2]	2,532	2,651
Year ended 31 Dec[3]	**8,907**	9,617

1 *A change in reportable segments was made during 2021. Comparative data has been re-presented accordingly.*
2 *Including pre-retirement ('CFCS') and expatriates.*
3 *Permanent contracts ('CDI') and fixed terms contracts ('CDD') within HSBC Continental Europe (including the European branches) and its subsidiaries HSBC Global Asset Management (France) and HSBC Assurances Vie (France).*

Share-based payments

HSBC Group policy

In 2005, the HSBC Group significantly revised its employee share option and share policy.

The rules of share option and share plans were approved by its Annual General Meeting held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule), which complies with the legal and tax regulations applicable in France. This regulation was revised in 2011 firstly to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the 'Group Performance Share Plan', for the HSBC Group's Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subjected to a review, to comply with local social and tax rules. Since 2006, the general policy of the HSBC Group is to award shares instead of share options (except in the case of a country specific legal and tax regulation).

The shares can be:

- 'Group Performance Shares' subject to performance conditions;
- 'Restricted Shares' without performance conditions.

Movement on 'Group Performance Shares'

Movement on 'Group Performance Shares'

	Number (000s)
Outstanding at 1 Jan 2021	**17**
Granted during the year	**4**
Exercised during the year	**(21)**
Expired during the year	**—**
Forfeited during the year	**—**
Outstanding at 31 Dec 2021	**—**
– of which: exercisable	**—**
Weighted average remaining contractual life (years)	**—**
Outstanding at 1 Jan 2020	30
Granted during the year	—
Exercised during the year	(13)
Expired during the year	—
Forfeited during the year	—
Outstanding at 31 Dec 2020	17
– of which: exercisable	—
Weighted average remaining contractual life (years)	0.04

This category of shares is available, after a vesting period of five years, at the retirement date.

From 2016, these Group Performance Shares are not available anymore.

'Restricted Shares'

For France-based employees, shares awarded are 'French qualified shares'.

Usually these shares vest definitively after a two-year or three-year period according to the rules of the Plan. Shares granted from 2011 will vest 66 per cent after two years and 34 per cent after three years.

Shares granted before 2016 cannot be sold before a tax lock-up period of two-years after their vesting. Since 1 January 2016, this category does not require any tax lock-up period and can be sold immediately.

With regards to impatriates are awarded non-qualified 'Restricted shares' that vest 33 per cent after one year, 33 per cent after two years and 34 per cent after three years.

Specifically, 'Material Risk Taker' employees are awarded 'Restricted shares' that vest immediately and 'French qualified shares' that vest under a period of four or five years. But all the shares granted to 'Material Risk Taker' are restricted to a period of tax unavailability about six months or 12 months.

Movement on 'Restricted Shares'

	Number (000s)
Outstanding at 1 Jan 2021	**3,932**
Movements of staff during the year 2021	**(384)**
Granted during the year[1]	**2,664**
Exercised during the year[2]	**(2,446)**
Expired during the year	**(206)**
Outstanding at 31 Dec 2021	**3,560**
– of which exercisable	**—**
Weighted average remaining contractual life (years)	**1**
Outstanding at 1 Jan 2020	2,802
Movements of staff during the year 2020 and previously[3]	783
Granted during the year[1]	2,927
Exercised during the year[2]	(2,563)
Expired during the year	(17)
Outstanding at 31 Dec 2020	3,932
– of which exercisable	—
Weighted average remaining contractual life (years)	1

1 *The weighted average fair value of shares granted during the year was EUR 4.90 (2020: EUR 6.73).*
2 *The weighted average share price at the date the shares were exercised was EUR 4.98 (2020: EUR 6.05).*
3 *Corresponds to the shares granted to Group employees who joined HSBC Continental Europe during previous years net of shares granted to HSBC Continental Europe employees who joined other Group entities.*

In 2021, EUR 8 million was charged to the income statement in respect of amortisation of the existing plans for HSBC in France (in 2020: EUR 9 million).

The vesting period for deferred share awards expected to be granted in 2021, in respect of the 2020 performance year, was determined to have started on 1 January 2020.

Employee share offering

In 2021, HSBC Continental Europe did not issue shares reserved for employees.

Income statement charge

	2021	2020
	€m	€m
Restricted share awards	**15**	13
Savings related and other share option plans	**—**	—
Year ended 31 Dec	**15**	13

Pension and other post-retirement benefits

Policy

HSBC Continental Europe operates a number of pension and other post-retirement benefit plans. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-retirement benefits.

HSBC Continental Europe pays each retiree a retiring indemnity. The amount is determined by the final earnings, the length of service in the company at this date and the guarantees under collective and internal agreements. Those plans represent 71 per cent of all commitments in France.

In addition, certain retired employees from the bank and HSBC Continental Europe Executive Directors are entitled to defined benefits pension plan. Those plan forecast the payment of benefits from the date of retirement. Those plans represent roughly 25 per cent of all commitments in France.

The costs recognised for funding these post-employment plans are determined using the Projected Unit Credit Method, with annual actuarial valuations performed on each plan.

HSBC Continental Europe recognises actuarial gains and losses directly in equity, without being recognised in income. Past service costs are immediately recognised. The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are charged to operating expenses.

The net defined benefit liability recognised in the balance sheet related to post-employment benefits recognised represents the present value of the defined benefit obligations reduced by the fair value of plan assets.

Payments to defined contribution plans and state-managed retirement benefit plans, where HSBC Continental Europe obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

In April 2021, the IFRIC issued a final agenda decision clarifying the period of service over which employee benefits are attributed under IAS19 for defined benefit plans paying a lump sum at retirement and where the amount of retirement benefit to which an employee is entitled is dependent on the length of employee service before retirement age and is capped at a specified number of consecutive years of service. The IFRIC clarified that the liability should be recognised over the specified service period prior to the retirement date. As a result, HSBC Continental Europe reassessed its retirement indemnity provisions. This led to a reduction in provisions of EUR 44 million, recognised as a retrospective restatement of the opening balance of retained earnings as at 1 January 2021.

Post-employment defined benefit plans' principal actuarial assumptions

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2021, and the 2021 periodic costs, were:

Key actuarial assumptions for the principal plan

	Discount rate	Inflation rate	Rate of increase for pensions and deferred pensions[1]	Rate of pay increase
	%	%	%	%
At 31 Dec 2021	**0.50**	**1.50**	**1.50**	**2.52**
At 31 Dec 2020	0.40	1.50	0.40	2.57

HSBC Continental Europe determines discount rates, in consultation with its actuary based upon the current average yield of high quality (AA rated or equivalent) debt instruments, with maturities consistent with that of the defined benefit obligations.

Mortality tables and average life expectancy at age 60 for the principal plan

	Mortality table	Life expectancy at age 60 for a male member currently: Aged 60	Life expectancy at age 60 for a female member currently: Aged 60
At 31 Dec 2021	**TV–TD 2015 2017**	**23.07**	**27.50**
At 31 Dec 2020	TV–TD 2014 2016	23.05	27.53

Recognition of defined benefit plans

Net (assets)/liabilities recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	Present value of defined benefit obligations[1]	Effect of limit on plan surpluses	Total
	€m	€m	€m	€m
Defined benefit pension plans	**5**	**131**	**—**	**126**
Defined benefit healthcare plans	**—**	**—**	**—**	**—**
At 31 Dec 2021	**5**	**131**	**—**	**126**
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')				**126**
Total employee benefit assets (within 'Prepayments, accrued income and other assets')				**—**
Defined benefit pension plans	6	181	—	175
Defined benefit healthcare plans	—	—	—	—
At 31 Dec 2020	6	181	—	175
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')				175
Total employee benefit assets (within 'Prepayments, accrued income and other assets')				—

1 *Retrospective restatement of the opening balance of retained earnings (EUR 44 million) following the adoption of changes in methodology for the recognition of pension liabilities (EUR 35 million attributable to a change in accrual methodology, EUR 9 million attributable to the change in starting point for the accrual as a result of an IFRIC final agenda decision in relation to the period of service over which employee benefits are attributed). Refer to Note 1.*

Cumulative actuarial gains/(losses) recognised in other comprehensive income

	2021	2020
	€m	€m
At 1 January	**93**	89
Total actuarial gains/(losses) recognised in other comprehensive income for the year	**(3)**	4
At 31 December	**90**	93

Actuarial gains and losses of the year includes the impact of actuarial assumptions' changes attributed to the increase of the discount rate from 0.40 per cent to 0.50 per cent.

Actuarial assumption sensitivities

The following table shows the effect of changes in actuarial assumptions on the principal plan. The discount rate is sensitive to changes in market conditions arising during the reporting period. The mortality rates used are sensitive to experience from the plan member profile.

	Defined benefits pension plan			
	Financial impact of increase		Financial impact of decrease	
	2021	2020	2021	2020
	€m	€m	€m	€m
Discount rate – increase/decrease of 0.25%	**(4)**	(6)	**4**	6
Inflation rate – increase/decrease of 0.25%	**1**	1	**(1)**	(1)
Pension payments and deferred pensions – increase/decrease of 0.25%	**1**	1	**(1)**	(1)
Pay – increase/decrease of 0.25%	**2**	4	**(2)**	(4)
Change in mortality – increase of 1 year	**2**	2	**(2)**	(2)

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit asset/(liability)
	Principal plan		
	€m	€m	€m
At 1 Jan 2021[1]	**6**	**137**	**131**
Service cost	**—**	**7**	**7**
– current service cost	**—**	**6**	**6**
– past service cost and gains/(losses) from settlements	**—**	**1**	**1**
Net interest income/(cost) on the net defined benefit asset/(liability)	**—**	**1**	**1**
Re-measurement effects recognised in other comprehensive income	**—**	**(7)**	**(7)**
– return on plan assets (excluding interest income)	**—**	**—**	**—**
– actuarial gains/(losses)	**—**	**(1)**	**(1)**
– other changes	**—**	**(6)**	**(6)**
Transfers	**—**	**—**	**—**
Exchange differences	**—**	**—**	**—**
Benefits paid	**(1)**	**(7)**	**(6)**
Other movements	**—**	**—**	**—**
At 31 Dec 2021	**5**	**131**	**126**
At 1 Jan 2020	7	195	188
Service cost	—	(12)	(12)
– current service cost	—	8	8
– past service cost and gains/(losses) from settlements	—	(20)	(20)
Net interest income/(cost) on the net defined benefit asset/(liability)	—	1	1
Re-measurement effects recognised in other comprehensive income	—	4	4
– return on plan assets (excluding interest income)	—	—	—
– actuarial gains/(losses)	—	3	3
– other changes	—	1	1
Transfers[2]	—	1	1
Exchange differences	—	—	—
Benefits paid	(1)	(8)	(7)
Other movements	—	—	—
At 31 Dec 2020	6	181	175

1 *Retrospective restatement of the opening balance of retained earnings (EUR 44 million) following the adoption of changes in methodology for the recognition of pension liabilities (EUR 35 million attributable to a change in accrual methodology, EUR 9 million attributable to the change in starting point for the accrual as a result of an IFRIC final agenda decision in relation to the period of service over which employee benefits are attributed). Refer to Note 1.*

2 *This amount corresponds to transfer of employees from HSBC Bank plc Paris Branch to HSBC Continental Europe.*

Benefits expected to be paid from the plans to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plans

	2022	2023	2024	2025	2026	2027–2031
	€m	€m	€m	€m	€m	€m
The principal plan[1]	12	7	9	10	10	39

1 *The duration of the defined benefit obligation is 11 years for the principal plan under the disclosure assumptions adopted (2020: 13 years) and 11 years for all other plans combined (2020: 13 years).*

Fair value of plan assets by asset classes

	At 31 Dec 2021				At 31 Dec 2020			
	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	€m	€m	€m	€m	€m	€m	€m	€m
Fair value of plan assets	5	5	—	—	6	6	—	—
– equities	—	—	—	—	—	—	—	—
– bonds	4	4	—	—	6	6	—	—
– derivatives	—	—	—	—	—	—	—	—
– other	1	1	—	—	—	—	—	—

6 Auditors' remuneration

	PricewaterhouseCoopers Audit France[1]		BDO Paris[1]	
	Amount (excluding VAT)		Amount (excluding VAT)	
	€k	%	€k	%
Fees for account certifications	3,743	91	497	95
Fees for other services provided to HSBC Continental Europe	358	9	28	5
Year ended 31 Dec 2021	**4,101**	**100**	**525**	**100**
Fees for account certifications	3,543	88	494	94
Fees for other services provided to HSBC Continental Europe	499	12	31	6
Year ended 31 Dec 2020	4,042	100	525	100

1 *This Note is prepared in compliance with ANC regulation 2016-08, 2016-09, 2016-10 and 2016-11 and includes only the fees paid to PricewaterhouseCoopers Audit France and BDO Paris.*

Services other than the account certification at 31 December 2021 for PricewaterhouseCoopers Audit France and BDO Paris mainly concern comfort letters related to the programmes of issuances and interim dividends, legal or regulatory services and also services related to internal control procedures (i.e. report ISAE 3402).

7 Tax

Tax expense

	2021	2020
	€m	€m
Current tax	32	52
Deferred tax	(15)	28
Year ended 31 Dec	**17**	80

HSBC Continental Europe's profits are taxed at different rates depending on the country in which the profits arise. In France, the 2020 Finances Law ('Loi de Finances') changed the target for the gradual decrease of the corporate tax rate. For the 2021 fiscal year, the applicable corporate tax rate is 27.5 per cent which will reduce to 25 per cent in 2022. The social contribution on profit (CSB at 3.3 per cent of the corporate income tax) is maintained and is added to the corporate income tax. As a consequence, for the French tax group in 2021, is the applicable tax rate was 28.41 per cent (2020: 32.02 per cent).

The decrease of the 2021 tax expense compared to 2020 is explained by a decrease in current tax expense due to decrease of European branches taxable results (mainly Spain and Italy)] and by the receipt of a refund on a prior claim in France. Additionally, there was a favorable impact of deferred tax compared to 2020 due to net deferred tax asset recognition in the French tax group and European branches (mainly Spain) following management's assessment of the likely availability of future taxable profits against which to recover the deferred tax assets.

Tax risks

In 2018, HSBC Leasing (France) incurred a tax audit for the years 2015 and 2016, the tax audit has continued in 2019 and 2020 for years 2018 and 2019. In the frame of these tax audits, the French tax authorities have reassessed the tax treatment of provisions related to some aircraft leasing transactions.

During 2021, HSBC Leasing (France) continued the dispute of the reassessments with the French tax authorities.

A provision corresponding to the best estimate of the risk has been recorded at 31 December 2018 and is periodically reassessed at each balance sheet date.

Analysis of overall tax charge

Tax reconciliation

	2021		2020	
	Overall tax charges		Overall tax charges	
	€m	**%**	€m	%
Profit/(loss) before tax	**285**		(945)	
Tax expense				
Taxation at French corporate tax rate	**81**	**28.41**	(303)	32.02
Impact of differently taxed overseas profits in overseas locations	**(9)**	**(3.2)**	(10)	1.1
Items impacting tax charge:				
– Permanent disallowables	**46**	**27.9**	39	(4.2)
– Local taxes and overseas withholding taxes	**17**	**6.0**	10	(1.1)
– Changes in tax rates	**(37)**	**(13.1)**	20	(2.1)
– Non-taxable income and gains subject to tax at a lower rate	**—**	**—**	(1)	0.1
– Adjustment in respect of prior years	**(2)**	**(0.6)**	11	(1.2)
– Deferred tax on tax losses or temporary differences not provided	**241**	**84.4**	326	(34.5)
– Other items [1]	**(320)**	**(123.9)**	(12)	1.3
Year ended 31 Dec	**17**	**5.9**	80	(8.4)

1 *Includes EUR 323 million in deferred tax assets previously unrecognized of French tax group (of which EUR 184 million on other temporary differences and EUR 139 million on tax losses carried forward).*

The effective tax rate for 2021 of 5.9 per cent whereas French current tax rate is 28.41 per cent is explained mainly by recognition of net deferred tax asset as of 31 December 2021.

Movement of deferred tax assets and liabilities

	Retirement benefits	Loans impairment allowances	Financial assets at FVOCI	Goodwill and intangibles	Other[1]	Total
	€m	€m	€m	€m	€m	€m
Assets	**1**	**48**	**(15)**	**—**	**97**	**131**
Liabilities	**1**	**—**	**(21)**	**—**	**(111)**	**(131)**
At 1 Jan 2021	**2**	**48**	**(36)**	**—**	**(14)**	**—**
Income statement	**33**	**(3)**	**—**	**24**	**(39)**	**15**
Other comprehensive income	**(2)**	**—**	**13**	**—**	**12**	**23**
Equity	**—**	**—**	**—**	**—**	**—**	**—**
Foreign exchange and other adjustments	**—**	**—**	**—**	**—**	**(1)**	**(1)**
At 31 Dec 2021	**33**	**45**	**(23)**	**24**	**(42)**	**37**
Assets[2]	**33**	**45**	**(23)**	**24**	**(42)**	**37**
Liabilities[2]	**—**	**—**	**—**	**—**	**—**	**—**
Assets	37	22	(6)	11	165	229
Liabilities	1	—	(19)	—	(157)	(175)
At 1 Jan 2020	38	22	(25)	11	8	54
Income statement	(34)	26	—	(11)	(9)	(28)
Other comprehensive income	(2)	—	(11)	—	(13)	(26)
Equity	—	—	—	—	—	—
Foreign exchange and other adjustments	—	—	—	—	—	—
At 31 Dec 2020	2	48	(36)	—	(14)	—
Assets[2]	1	48	(15)	—	97	131
Liabilities[2]	1	—	(21)	—	(111)	(131)

1 *Deferred tax in 'Other' includes notably deferred tax assets from Mark-to-Market on issuances of Covered Bonds and Derivatives and deferred tax liabilities on PVIF.*

2 *After netting off balances within entities, the balances as disclosed in the accounts are as follows: deferred tax assets EUR 37 million (2020: EUR 0 million).*

French tax group

Total deferred tax liabilities recognised were EUR 649 million as at 31 December 2021, of which EUR 382 million arising as a consequence of the temporary difference between the French tax basis and IFRS in respect of a provision for loss on disposal recognised in the French tax return following the signing of the Framework Agreement for the planned sale of the French retail banking business.

Management assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the French tax group, taking into consideration the reversal of existing taxable temporary differences, the drivers of past business performance, forecasts of future business performance and associated forecasting uncertainty. Following the signing of the Framework Agreement in 2021 for the planned sale of the French retail banking business, that business is now excluded from our deferred tax analysis as its sale is considered probable. Although the French consolidated tax group recorded a tax loss in both 2020 and 2021, this would have been taxable profit if the effects of the retail banking business and other non-recurring items were excluded. The French net deferred tax asset is supported by forecasts of taxable profit, also taking into consideration the history of profitability in the remaining businesses.

As a result of this assessment and management judgment, EUR 661 million in deferred tax assets were recognised, of which EUR 350 million partial recognition of tax losses carried forward which are expected to be substantially recovered within 10 years (of a total potential amount of EUR 591 million) and EUR 311 million of temporary differences (fully recognised). The net deferred tax assets recognised are judged not to be highly sensitive to possible changes in forecast cash flows both in respect of specific risks and general forecasting risks. Potential deferred tax assets that remained unrecognised at 31 December 2021 amounted to EUR 241 million.

No net deferred tax asset was recognised as at 31 December 2020 as management did not consider there to be convincing evidence of sufficient future taxable profits to support recognition (the balance of previously unrecognised deferred tax assets of French tax group now recognised amounts to EUR 323 million, of which EUR 184 million in respect of deductible temporary differences and EUR 139 million in respect of tax losses carried forward).

Unrecognised deferred tax

The gross amount of unused tax losses of the French tax group for which no deferred tax assets is recognised in the balance sheet was EUR 933 million (2020: EUR 539 million). These losses can be carried forward indefinitely. All deferred tax assets for temporary differences were recognised in 2021 (unrecognised in 2020: EUR 712 million).

CVAE

Since 2010, the French Tax '*taxe professionnelle*' was replaced by a new tax '*contribution économique territoriale' ('CET')* composed of the '*cotisation foncière des entreprises*' *('CFE')* based on the rental value of taxable property, and the '*cotisation sur la valeur ajoutée des entreprises*' *('CVAE')* corresponding to 0.75 per cent of added-value of the year.

HSBC Continental Europe has treated the *CVAE* as income tax, in application of IAS 12. Deferred *CVAE* contributions are accounted for on the basis of temporary differences between the book value of assets and liabilities and their tax value from a *CVAE* standpoint.

Since 2014, the *CVAE* contribution is included in 'Income Tax'. In 2021, the impact of this accounting position was a classification of a charge of EUR 9.5 million (2020: EUR 12.3 million) as 'Income Tax' and the recognition of a deferred tax charge of EUR 14.1 million (2020: EUR 0.3 million).

8 Dividends

Dividends to shareholders of the parent company

	2021		2020	
	Per share	Total	Per share	Total
	€	€m	€	€m
Dividends paid on ordinary shares				
In respect of previous year:				
– exceptional dividend	—	—	—	—
– dividend paid	—	—	—	—
In respect of current year:				
– first interim dividend	—	—	—	—
Total dividend paid to shareholders	—	—	—	—
Total coupons on capital instruments classified as equity		30		30

Dividends related to 2021

The Board of Directors meeting held on 22 February 2022 proposed to the Ordinary General Meeting, on 11 March 2022, not to distribute a dividend in respect of the year 2021.

Dividends related to 2020

The Combined General Meeting held on 11 March 2021 approved the recommendation made by the Board of Directors, on 23 February 2021, not to distribute a dividend in respect of the year 2020.

Dividends per share

	2021	2020
	€	€
Dividends per share[1]	—	—

1 *Coupons paid on other equity instruments are not included in the calculation of the dividends per share.*

Other equity instruments

Total coupons on capital instruments classified as equity[1]

	First call date	2021 €m	2020 €m
Perpetual subordinated capital instruments			
– EUR 200 million issued at 4.56%	May 2022	9	9
– EUR 300 million issued at 4%	March 2023	12	12
– EUR 250 million issued at 3.46%	December 2024	9	9
Total		30	30

1 *Discretionary coupons are paid semi-annually on the perpetual subordinated capital instruments.*

9 Earnings per share

Basic earnings per ordinary share were calculated by dividing the basic earnings of EUR 269 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 98,231,196 (full year 2020: earnings of EUR (1,022) million and 98,231,196 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 98,231,196 (full year 2020: 98,231,196 shares). At 31 December 2021, no potentially dilutive ordinary share had been issued.

Basic and diluted earnings per share

	2021			2020		
	Profit/ (loss)	**Number of shares**	**Per share**	Profit/ (loss)	Number of shares	Per share
	€m	**(millions)**	**€**	€m	(millions)	€
Basic earnings per share	**269**	**98**	**2.74**	(1,022)	98	(10.43)
Diluted earnings per share	**269**	**98**	**2.74**	(1,022)	98	(10.43)

10 Trading assets

	2021	2020
	€m	€m
Treasury and other eligible bills	**689**	853
Debt securities	**10,292**	12,001
Equity securities	**1,306**	—
Trading securities	**12,287**	12,854
Loans and advances to banks	**270**	27
Loans and advances to customers	**364**	73
Year ended 31 Dec	**12,921**	12,954

11 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, we source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradeable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date;
- the manner in which the data was sourced.

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support function of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs.

Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Financial liabilities measured at fair value

In certain circumstances, HSBC Continental Europe records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are based either on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread that is appropriate to the HSBC Continental Europe's liabilities.

Structured notes issued and certain other hybrid instruments are included within trading liabilities and are measured at fair value.The spread applied to these instruments is derived from the spreads at which HSBC Continental Europe issues structured notes.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – Valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC Continental Europe can access at the measurement date.
- Level 2 – Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – Valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Breakdown of financial instruments recorded at fair value by level of fair value measurement

Financial instruments carried at fair value and bases of valuation

	Valuation techniques				Amount with HSBC entities		
	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant non-observable inputs	Third-party Total	Amounts with HSBC entities	*Of which: Level 3*	Total
At 31 Dec 2021	**€m**	**€m**	**€m**	**€m**	**€m**	***€m***	**€m**
Assets							
Trading assets	**10,851**	**2,032**	**10**	**12,893**	**28**	**—**	**12,921**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**3,335**	**7,592**	**2,284**	**13,211**	**134**	**—**	**13,345**
Derivatives	**36**	**25,234**	**50**	**25,320**	**14,314**	***68***	**39,634**
Financial investments	**8,415**	**6,506**	**999**	**15,920**	**183**	**—**	**16,103**
Liabilities							
Trading liabilities	**15,872**	**369**	**—**	**16,241**	**6**	**—**	**16,247**
Financial liabilities designated at fair value	**—**	**13,068**	**665**	**13,733**	**—**	**—**	**13,733**
Derivatives	**20**	**22,958**	**93**	**23,071**	**12,824**	***67***	**35,895**
At 31 Dec 2020							
Assets							
Trading assets	11,449	1,468	29	12,946	8	—	12,954
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,891	6,227	2,279	11,397	251	—	11,648
Derivatives	35	35,911	109	36,055	20,420	*491*	56,475
Financial investments	11,570	6,331	815	18,716	445	*127*	19,161
Liabilities							
Trading liabilities	17,809	19	—	17,828	—	—	17,828
Financial liabilities designated at fair value	—	16,340	552	16,892	—	—	16,892
Derivatives	17	37,706	239	37,962	17,752	*138*	55,714

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2021							
Transfers from Level 1 to Level 2	**431**	**288**	**901**	**—**	**—**	**—**	**—**
Transfers from Level 2 to Level 1	**285**	**418**	**465**	**—**	**6**	**—**	**—**
At 31 Dec 2020							
Transfers from Level 1 to Level 2	223	185	—	—	18	6,609	—
Transfers from Level 2 to Level 1	1,766	188	80	—	—	—	—

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are normally attributable to observability of valuation inputs and price transparency.

In the current year the majority of the transfers relates to reclassification of certain positions where improved data is available.

Fair value adjustments

Fair value adjustments are adopted when we determine there are additional factors considered by market participants that are not incorporated within the valuation model.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and fair value adjustments may no longer be required.

Bid-offer

IFRS 13 'Fair value measurement' requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit Valuation adjustment ('CVA')

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and that HSBC Continental Europe may not receive the full market value of the transactions.

Debit valuation adjustment ('DVA')

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that HSBC Continental Europe may default, and that it may not pay the full market value of the transactions.

Funding fair value adjustment ('FFVA')

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC Continental Europe or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted by HSBC Continental Europe when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Financial Invest-ments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total Assets	Trading liabilities	Designated at fair value	Derivatives	Total liabilities
	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2021									
Private equity including strategic investments	**31**	**—**	**1,974**	**—**	**2,005**	**—**	**—**	**—**	**—**
Asset-backed securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**664**	**—**	**664**
Derivatives	**—**	**—**	**—**	**50**	**50**	**—**	**—**	**93**	**93**
Other portfolios	**968**	**10**	**310**	**—**	**1,288**	**—**	**1**	**—**	**1**
HSBC Group subsidiaries	**—**	**—**	**—**	**68**	**68**	**—**	**—**	**67**	**67**
Total	**999**	**10**	**2,284**	**118**	**3,411**	**—**	**665**	**160**	**825**
At 31 Dec 2020									
Private equity including strategic investments	21	—	1,974	—	1,995	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—	—	—
Structured notes	—	—	—	—	—	—	552	—	552
Derivatives	—	—	—	109	109	—	—	239	239
Other portfolios	794	29	305	—	1,128	—	—	—	—
HSBC Group subsidiaries	127	—	—	491	618	—	—	138	138
Total	942	29	2,279	600	3,850	—	552	377	929

Private equity including strategic investments

HSBC Continental Europe's private equity positions are generally classified as financial investments and are not traded on an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted on an active market, or the price at which similar companies have changed ownership. Fair value investment estimation being subjected to judgement and uncertainty subjective factors remain until the private equity investment is sold.

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security and the fair value of the embedded derivative will be determined as described in the section below on derivatives. These structured notes comprise principally equity-linked notes and rate-linked notes, issued by HSBC Continental Europe, which provide the counterparty with a return linked to the performance of equity securities and other portfolios. Examples of the unobservable parameters include long-dated equity volatilities and correlations between equity prices, and interest and foreign exchange rates.

Derivatives

Over-the-counter (i.e. non-exchange traded) derivatives valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2021	**942**	**29**	**2,279**	**600**	**—**	**552**	**377**
Total gains/(losses) recognised in profit or loss	**—**	**(1)**	**58**	**(135)**	**—**	**(77)**	**(38)**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis[1]	**—**	**(1)**	**—**	**(135)**	**—**	**—**	**(38)**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**58**	**—**	**—**	**(77)**	**—**
– gains less losses from financial investments at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income	**(34)**	**—**	**—**	**—**	**—**	**—**	**—**
– financial investments: fair value gains/(losses)	**(34)**	**—**	**—**	**—**	**—**	**—**	**—**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchases	**647**	**2**	**157**	**—**	**—**	**1**	**—**
New issuances	**—**	**—**	**—**	**—**	**—**	**101**	**—**
Sales	**(556)**	**(26)**	**(210)**	**—**	**—**	**(24)**	**—**
Settlements[1]	**—**	**—**	**—**	**(435)**	**—**	**(119)**	**(282)**
Transfer out	**—**	**—**	**—**	**—**	**—**	**19**	**—**
Transfer in	**—**	**6**	**—**	**88**	**—**	**212**	**103**
At 31 Dec 2021	**999**	**10**	**2,284**	**118**	**–**	**665**	**160**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2021	**—**	**—**	**59**	**(14)**	**—**	**67**	**11**
– trading income/(expense) excluding net interest income	**—**	**—**	**—**	**(14)**	**—**	**—**	**11**
– net income/(expense) from other financial instruments designated at fair value	**—**	**—**	**59**	**—**	**—**	**67**	**—**
At 1 Jan 2020	1,081	2	2,325	770	—	307	599
Total gains/(losses) recognised in profit or loss	—	(2)	75	(347)	—	124	(357)
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	(2)	—	(347)	—	—	(357)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	75	—	—	124	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	60	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	60	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	386	46	288	—	—	—	—
New issuances	—	—	—	—	—	19	—
Sales	(585)	(46)	(324)	—	—	—	—
Settlements	—	(21)	(85)	105	—	14	93
Transfer out	—	—	—	(2)	—	(108)	(1)
Transfer in	—	50	—	74	—	196	43
At 31 Dec 2020	942	29	2,279	600	—	552	377
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	—	—	148	81	—	71	109
– trading income/(expense) excluding net interest income	—	—	—	81	—	—	109
– net income/(expense) from other financial instruments designated at fair value	—	—	148	—	—	71	—

1 *Movements in 2021 reflect a refinement in the bifurcation between 'Net income/(expense) from financial instruments held for trading or managed on a fair value basis' and 'Settlements'. Prior periods have not been re-presented.*

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 31 Dec 2021				At 31 Dec 2020			
	Reflected in profit or loss		Reflected in other comprehensive Income		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m	€m	€m	€m	€m
Derivatives/trading assets/trading liabilities[1]	3	(3)	—	—	9	(9)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	119	(119)	—	—	121	(122)	—	—
Financial investments	—	—	54	(54)	—	—	43	(43)
HSBC Group subsidiaries	10	(10)	—	—	23	(23)	6	(6)
Total	132	(132)	54	(54)	153	(154)	49	(49)

1 Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
At 31 Dec 2021				
Private equity including strategic investments	110	(110)	2	(2)
Asset-backed securities	—	—	—	—
Structured notes	1	(1)	—	—
Derivatives	2	(2)	—	—
Other portfolios	9	(9)	52	(52)
HSBC Group subsidiaries	10	(10)	—	—
Total	132	(132)	54	(54)
At 31 Dec 2020				
Private equity including strategic investments	102	(102)	1	(1)
Asset-backed securities	—	—	—	—
Structured notes	10	(10)	—	—
Derivatives	9	(9)	—	—
Other portfolios	9	(10)	42	(42)
HSBC Group subsidiaries	23	(23)	6	(6)
Total	153	(154)	49	(49)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95 per cent confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value[1]				Full range of inputs	
	Assets	Liabilities	Valuation technique	Key unobservable inputs	Lower	Higher
	€m	€m			%	%
At 31 Dec 2021						
Private equity including strategic investments	**2,005**	**–**	**See notes below**	**See notes below**	**N/A**	**N/A**
Asset-backed securities						
– CLO/CDO[2]	**–**	**–**	**Market proxy**	**Bid quotes**	**–**	**–**
– other ABSs	**–**	**–**				
Structured notes	**–**	**664**				
– equity-linked notes	**–**	**470**	**Model – Option model**	**Equity volatility**	**–**	**–**
			Model – Option model	**Equity Correlation**	**34**	**91**
– FX-linked notes	**–**	**–**	**Model – Option model**	**FX volatility**	**–**	**–**
– other	**–**	**194**				
Derivatives	**118**	**160**				
Interest rate derivatives	**55**	**63**				
– securitisation swaps	**3**	**–**	**Model – DCF[3]**	**Prepayment rate**	**50**	**50**
– long-dated swaptions	**–**	**–**	**Model – Option model**	**IR volatility**	**–**	**–**
– other	**52**	**63**				
Foreign exchange derivatives	**1**	**1**				
– foreign exchange options	**1**	**1**	**Model – Option model**	**FX volatility**	**4**	**97**
Equity derivatives	**62**	**96**				
– long-dated single stock options	**–**	**–**	**Model – Option model**	**Equity volatility**	**–**	**–**
– other	**62**	**96**				
Credit derivatives						
– other	**–**	**–**				
Other portfolios	**1,288**	**1**				
Total Level 3	**3,411**	**825**				
At 31 Dec 2020						
Private equity including strategic investments	1,995	–	See notes below	See notes below	N/A	N/A
Asset-backed securities						
– CLO/CDO[2]	–	–	Market proxy	Bid quotes	–	–
– other ABSs	–	–				
Structured notes	–	552				
– equity-linked notes	–	285	Model – Option model	Equity volatility	–	51
– fund-linked notes	–	–	Model – Option model	Fund volatility	–	–
– FX-linked notes	–	–	Model – Option model	FX volatility	–	–
– other	–	267				
Derivatives	600	377				
Interest rate derivatives	435	219				
– securitisation swaps	141	–	Model – DCF[3]	Prepayment rate	50	50
– long-dated swaptions	131	56	Model – Option model	IR volatility	16	28
– other	163	163				
Foreign exchange derivatives	3	3				
– foreign exchange options	3	3	Model – Option model	FX volatility	7	16
Equity derivatives	162	155				
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–
– other	162	155				
Credit derivatives						
– other	–	–				
Other portfolios	1,255	–				
Total Level 3	3,850	929				

1 *Including Level 3 balances with HSBC entities.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted cash flow.*

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. They vary according to the nature of the loan portfolio and expectations of future market conditions, and may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historical prepayment rates and macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument for which specific market pricing is not available, but evidence is available in respect of instruments that have some characteristics in common. In some cases it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

Certain volatilities, typically those of a longer-dated nature, are unobservable and estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price. The core range is significantly narrower than the full range because these examples with extreme volatilities occur relatively rarely within the HSBC Continental Europe portfolio.

Correlation

Correlation is a measure of the inter-relationship between two market prices, and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market price. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC Continental Europe trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices and may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events. Furthermore, the effect of changing market variables on the HSBC Continental Europe portfolio will depend on its net risk position in respect of each variable.

12 Fair values of financial instruments not carried at fair value

Fair value of financial instruments not carried at fair value and basis of valuation

		Fair value			
	Carrying amount	Level 1 – Quoted market price	Level 2 – Using observable inputs	Level 3 – Significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 31 Dec 2021					
Assets					
Loans and advances to banks	**6,832**	**–**	**6,833**	**–**	**6,833**
Loans and advances to customers	**59,612**	**–**	**–**	**59,739**	**59,739**
Reverse repurchase agreements – non-trading	**20,487**	**–**	**20,487**	**–**	**20,487**
Financial investments: debt securities at amortised cost	**7**	**–**	**–**	**7**	**7**
Liabilities					
Deposits by banks	**18,548**	**–**	**18,488**	**–**	**18,488**
Customer accounts	**70,144**	**–**	**70,137**	**–**	**70,137**
Repurchase agreements – non-trading	**8,731**	**–**	**8,731**	**–**	**8,731**
Debt securities in issue	**7,414**	**–**	**7,414**	**–**	**7,414**
Subordinated liabilities	**1,876**	**–**	**1,938**	**–**	**1,938**
At 31 Dec 2020					
Assets					
Loans and advances to banks	6,781	–	6,782	–	6,782
Loans and advances to customers	56,225	–	–	56,334	56,334
Reverse repurchase agreements – non-trading	21,522	–	21,522	–	21,522
Financial investments: debt securities at amortised cost	6	–	–	6	6
Liabilities					
Deposits by banks	17,204	–	17,145	–	17,145
Customer accounts	61,393	–	61,387	–	61,387
Repurchase agreements – non-trading	10,984	–	10,984	–	10,984
Debt securities in issue	3,605	–	3,605	–	3,605
Subordinated liabilities	1,876	–	1,958	–	1,958

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks and items in the course of collection from and transmission to other banks, all of which are measured at amortised cost.

Valuation

The fair value measurement is HSBC Continental Europe's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs expected to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third-party brokers which reflect over-the-counter trading activity; forward-looking discounted cash flow models using assumptions which HSBC Continental Europe believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value impact of repricing between origination and the balance sheet date.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as their balances are generally short dated.

13 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2021	2020
	Designated at fair value and otherwise mandatorily measured at fair value	Designated at fair value and otherwise mandatorily measured at fair value
	€m	€m
Securities	**13,211**	11,507
– debt securities	**2,514**	2,796
– equity securities	**10,697**	8,711
Loans and advances to banks and customers	**134**	141
Other	**—**	—
Year ended 31 Dec	**13,345**	11,648

14 Derivatives

Notional contract amounts and fair values of derivatives by product contract type held by HSBC Continental Europe

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Foreign exchange	**764,583**	**253**	**9,904**	**23**	**9,927**	**9,573**	**—**	**9,573**
Interest rate	**3,493,792**	**13,066**	**35,387**	**1**	**35,388**	**31,963**	**36**	**31,999**
Equities	**38,562**	**—**	**414**	**—**	**414**	**400**	**—**	**400**
Credit	**7,190**	**—**	**92**	**—**	**92**	**109**	**—**	**109**
Commodity and other	**1,912**	**—**	**3**	**—**	**3**	**4**	**—**	**4**
Gross total fair values	**4,306,039**	**13,319**	**45,800**	**24**	**45,824**	**42,049**	**36**	**42,085**
Offset (Note 28)			**(6,190)**		**(6,190)**	**(6,190)**		**(6,190)**
At 31 Dec 2021	**4,306,039**	**13,319**	**39,610**	**24**	**39,634**	**35,859**	**36**	**35,895**
Foreign exchange	555,346	261	9,138	18	9,156	8,723	—	8,723
Interest rate	3,758,436	15,277	53,856	—	53,856	53,571	55	53,626
Equities	23,562	—	528	—	528	400	—	400
Credit	6,065	—	58	—	58	87	—	87
Commodity and other	1,176	—	3	—	3	4	—	4
Gross total fair values	4,344,585	15,538	63,583	18	63,601	62,785	55	62,840
Offset (Note 28)			(7,126)		(7,126)	(7,126)		(7,126)
At 31 Dec 2020	4,344,585	15,538	56,457	18	56,475	55,659	55	55,714

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Derivative asset and liability fair values decreased during 2021, driven mainly by yield curve movements.

Use of derivatives

HSBC Continental Europe undertakes derivatives activity for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge our own risks.

Trading derivatives

Most of HSBC Continental Europe's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had the valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is in the following table:

Unamortised balance of derivatives valued using models with significant unobservable inputs

	2021	2020
	€m	€m
Unamortised balance at 1 Jan	**5**	3
Deferral on new transactions	**—**	3
Recognised in the income statement during the year:	**(5)**	(1)
– amortisation	**—**	(1)
– subsequent to unobservable inputs becoming observable	**—**	1
– maturity, termination or offsetting derivative	**(3)**	(1)
– risk hedged	**(2)**	—
Exchange differences and other	**—**	—
At 31 Dec	**—**	5

Hedge Accounting derivatives

HSBC Continental Europe uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables us to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. These are described under the relevant headings below.

Fair value hedges

HSBC Continental Europe's fair value hedges principally consist of interest rate swaps that are used to protect against changes due to movements in market interest rates in the fair value of fixed-rate long-term financial instruments of portfolio and fixed rates loans. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the hedging period.

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value
Hedged Risk	€m	€m	€m		€m
Interest rate[2]	**6,067**	**—**	**35**	**Derivatives**	**112**
At 31 Dec 2021	**6,067**	**—**	**35**		**112**
Hedged Risk					
Interest rate[2]	8,469	—	55	Derivatives	(87)
At 31 Dec 2020	8,469	—	55		(87)

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2 The hedged risk 'interest rate' includes inflation risk.

Hedged item by hedged risk

	Hedged Item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	€m	€m	€m	€m		€m	€m	
Interest rate[2]	**4,259**	**—**	**16**	**—**	**Financial assets at fair value through other comprehensive income**	**(92)**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
	2	**—**	**(3)**	**—**	**L&A to Banks**	**(2)**		
	1,180	**—**	**8**	**—**	**L&A to Customers**	**(18)**		
	—	**—**	**—**	**—**	**Debt securities in issue**	**—**		
	—	**—**	**—**	**—**	**Subordinated liabilities and deposits by Banks**	**—**		
At 31 Dec 2021	**5,441**	**—**	**21**	**—**		**(112)**	**—**	

	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	€m	€m	€m	€m		€m	€m	
Interest rate[2]	5,574	—	126	—	Financial assets at fair value through other comprehensive income	61	—	Net income from financial instruments held for trading or managed on a fair value basis
	5	—	3	—	L&A to Banks	3		
	1,436	—	26	—	L&A to Customers	18		
	—	—	—	—	Debt securities in issue	—		
	—	—	—	—	Subordinated liabilities and deposits by Banks	5		
At 31 Dec 2020	7,015	—	155	—		87	—	

1 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.
2 The hedged risk 'interest rate' includes inflation risk.

Cash flow hedges

HSBC Continental Europe's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

HSBC Continental Europe applies macro cash flow hedging for interest-rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

Hedging instrument by hedged risk

	Hedging Instrument					**Hedged Item**	**Ineffectiveness**	
		Carrying amount						
Hedged Risk	**Notional amount[1] €m**	**Assets €m**	**Liabilities €m**	**Balance sheet presentation**	**Change in fair value[2] €m**	**Change in fair value[3] €m**	**Recognised in profit and loss €m**	**Profit and loss presentation**
Foreign currency	**253**	**23**	**—**	**Derivatives**	**—**	**—**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**6,999**	**1**	**1**		**(68)**	**(59)**	**(9)**	
At 31 Dec 2021	**7,252**	**24**	**1**		**(68)**	**(59)**	**(9)**	

		Carrying amount						
Hedged Risk	Notional amount[1] €m	Assets €m	Liabilities €m	Balance sheet presentation	Change in fair value[2] €m	Change in fair value €m	Recognised in profit and loss €m	Profit and loss presentation
Foreign currency	253	15	—	Derivatives	—	—	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	6,808	—	—		31	30	1	
At 31 Dec 2020	7,061	15	—		31	30	1	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component*.

Sources of hedge ineffectiveness may arise from basis risk including, but not limited to timing differences between the hedged items and hedging instruments, and hedges using instruments with a non-zero fair value.

Analysis of other comprehensive income by risk type

	Interest rate €m	**Foreign Currency €m**
Cash flow hedging reserve at 1 Jan 2021	**69**	**—**
Fair value gains/(losses)	**(59)**	**—**
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of hedged items that has affected profit or loss	**11**	**—**
Income taxes	**16**	**—**
Others	**—**	**—**
Cash flow hedging reserve at 31 Dec 2021	**37**	**—**
Cash flow hedging reserve at 1 Jan 2020	34	—
Fair value gains/(losses)	30	—
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of hedged items that has affected profit or loss	17	—
Income taxes	(12)	—
Others	—	—
Cash flow hedging reserve at 31 Dec 2020	69	—

Embedded derivatives: home purchase savings

Home purchase savings accounts ('CEL') and plans ('PEL') are specific financial instruments established by law 65-554 of 10 July 1965. Within these products, customers build up savings during a certain period and use them to obtain loans during a subsequent period. The latter phase depends on, and cannot be separated from, the build-up phase.

To recognise derivatives embedded in PEL/CEL home purchase savings products at fair value, HSBC Continental Europe has developed a model with the following main characteristics:

- the main accounting reference is IFRS 9, concerning the measurement of fair value with respect to derivative instruments;
- the derivatives under consideration are borrowing and savings options embedded in contracts in force at the accounts-closing date:
  - the model calculates the fair value of exceptional payment and deferred payment options granted to customers (for home purchase savings plans only);
  - the model calculates the fair value of options to use acquired borrowing rights;
- the calculation is dependent on customer behaviour, and is carried out separately for each issue of PELs and on a combined basis for CELs.

At 31 December 2021, derivatives embedded in home purchase savings products represented a liability of EUR 7.3 million (at 31 December 2020: a liability of EUR 5.7 million).

Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial instruments'

The first set of amendments (Phase 1) to IFRS 9 and IAS 39, which were published in September 2019 and endorsed in January 2020, primarily allowed to assume that the interbank offered rates ('Ibors') are to continue unaltered for the purposes of forecasting hedged cash flows until such time as the uncertainty of transitioning to nearly risk free rates ('RFRs') is resolved. The second set of amendments ('Phase 2'), issued in August 2020 and endorsed in January 2021, allows to modify hedge documentation to reflect the components of hedge relationships which have transitioned to RFRs on an economically equivalent basis as a direct result of the Ibor transition.

While, the application of Phase 1 amendments is mandatory for accounting periods starting on or after 1 January 2020, HSBC Continental Europe has chosen to early apply the Phase 2 amendments from the beginning of 2020. Significant judgement will be required in determining when Ibor transition uncertainty is resolved and therefore decide when Phase 1 amendments cease to apply and when some of the Phase 2 amendments can be applied.

The notional of the derivatives impacted by the Ibors reform but which are not used in designated hedge accounting relationship is disclosed on page 109 in the section 'Financial Instruments impacted by the Ibors reform'.

HSBC Continental Europe has cash flow and fair value hedge accounting relationships that are exposed to different Ibors, predominantly US Dollar Libor, Sterling Libor, and Euribor as well as overnight rates subject to the market-wide benchmarks reform, such as the European overnight Index Average rate ('Eonia'). Existing financial instruments (such as derivatives, loans and bonds) designated in relationships referencing these benchmarks are expected to transition to new RFRs in different ways and at different times. External progress on the transition to RFRs is being monitored within HSBC Continental Europe, with the objective of ensuring a smooth transition for HSBC Continental Europe's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationships, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationship entered into, while others may survive the market-wide benchmarks reforms.

The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the Balance Sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to banks', 'Loans and advances to customers'.

The notional amounts of Interest Rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by HSBC Continental Europe that is expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 and Phase 2 amendments.

Hedging instrument impacted by IBOR reform

	Hedging instruments						
	Impacted by IBOR reform					Not impacted by IBOR reform	Notional Amount[1]
	EUR	GBP	USD	Other	Total		
	€m	€m	€m	€m	€m	€m	€m
Fair Value Hedges	**877**	**—**	**350**	**—**	**1,227**	**4,840**	**6,067**
Cash Flow Hedges	**6,999**	**—**	**—**	**—**	**6,999**	**—**	**6,999**
At 31 Dec 2021	**7,876**	**—**	**350**	**—**	**8,226**	**4,840**	**13,066**
Fair Value Hedges	6,105	25	365	—	6,495	1,974	8,469
Cash Flow Hedges	6,808	—	—	—	6,808	—	6,808
At 31 Dec 2020	12,913	25	365	—	13,303	1,974	15,277

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at balance sheet date; they do not represent amounts at risk.*

The main market events in scope of Ibor reform during 2020 were the changes applied by central clearing counterparties to remunerating EURO and US dollar collateral. While there was a minimal valuation impact to the derivatives in scope which are used for hedge accounting, these changes had no discontinuation impact to any of the designated relationships affected. The main market events in scope of Ibor reform in 2021 have been Bulk CCP transition and cessation of EUR, GBP, CHF and JPY Libor.

15 Financial investments

Carrying amount of financial investments

	2021	2020
	€m	€m
Financial investments measured at fair value through other comprehensive income	**16,103**	19,161
– treasury and other eligible bills	**655**	780
– debt securities	**15,416**	18,359
– equity securities	**32**	22
– other instruments	**—**	—
Debt instruments measured at amortised cost	**7**	6
– treasury and other eligible bills	**—**	—
– debt securities	**7**	6
At 31 Dec	**16,110**	19,167

Equity instruments measured at fair value through other comprehensive income

	2021		2020	
	Fair value	**Dividends recognised**	Fair value	Dividends recognised
Type of equity instruments	**€m**	**€m**	€m	€m
Investments required by central institutions	**31**	**—**	21	—
Others	**1**	**—**	1	—
At 31 Dec	**32**	**—**	22	—

16 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral

	2021	2020
	€m	€m
Treasury bills and other eligible securities	**—**	787
Loans and advances to banks	**—**	—
Loans and advances to customers	**18,239**	17,440
Debt securities	**10,595**	11,189
Equity securities	**449**	—
Other	**9,922**	15,939
Assets pledged at 31 Dec	**39,205**	45,355

Assets pledged as collateral include all assets categorised as encumbered in the disclosure on page 148. The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining.

HSBC Continental Europe places both cash and non-cash collateral in relation to derivative transactions.

Financial assets pledged as collateral that the counterparty has the right to sell or repledge

	2021	2020
	€m	€m
Trading assets	**9,538**	10,983
Financial investments	**1,064**	360
At 31 Dec	**10,602**	11,343

Collateral received

The fair value of financial assets accepted as collateral, relating primarily to standard securities lending, reverse repurchase agreements and derivative margining, that HSBC Continental Europe is permitted to sell or repledge in the absence of default was EUR 50,809 million at 31 December 2021 (EUR 52,980 million at 31 December 2020).

The fair value of any such collateral sold or repledged was EUR 43,628 million at 31 December 2021 (EUR 47,999 million at 31 December 2020). HSBC Continental Europe is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

Assets transferred

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting HSBC Continental Europe's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet. Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. HSBC Continental Europe is unable to use, sell or pledge the transferred assets for the duration of these transactions, and remains exposed to interest rate risk and credit risk on these pledged assets. The counterparty's recourse is not limited to the transferred assets.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	Associated liabilities
	€m	€m
Repurchase agreements	**9,225**	**9,251**
Securities lending agreements	**1,377**	**–**
At 31 Dec 2021	**10,602**	**9,251**
Repurchase agreements	10,153	10,193
Securities lending agreements	1,190	–
At 31 Dec 2020	11,343	10,193

17 Interests in associates and partnerships

Associate

At 31 December 2021, HSBC Continental Europe consolidated under equity method three entities on which it exercises a joint control or a significant influence. The impact on consolidated financial statements is not significant.

	At 31 Dec 2021		
	Country of incorporation and principal place of business	Principal activity	HSBC Continental Europe's interest %
HCM Holdings Ltd	**United Kingdom**	**Financial company**	**51**
HSBC Global Asset Management (Switzerland)	**Switzerland**	**Asset management**	**50**
Service Epargne Entreprise	**France**	**Service company**	**14.2**

Although HSBC Continental Europe owns more than 50 per cent of the equity capital of HCM Holdings Ltd, the agreement with the other shareholder includes restrictions on the rights of HSBC Continental Europe as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

Regarding the entity Service Epargne Entreprise developed in partnership with other groups, HSBC Continental Europe participates in strategic decisions of the associate through its representation in the executive bodies, influences operational management by providing management systems or management staff or brings its technical cooperation to the company's growth.

The share in the results of companies under equity method is not significant.

Partnerships

As of 31 December 2021, the contribution of HSBC Middle East Leasing Partnership ('MELP') to the consolidated total assets of HSBC Continental Europe was EUR 501 million (2020: EUR 480 million) and EUR 5 million (2020: EUR 10 million) to the consolidated income statement.

18 Related information on foreign subsidiaries and branches country by country

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

	At 31 Dec 2021					
	Net Operating Income	Profit/(loss) Before Tax	Current Tax	Deferred Tax	Public subsidies received	Number of employees (Full Time Equivalent)
	€m	€m	€m	€m	€m	
HSBC Continental Europe	**2,330**	**285**	**(32)**	**15**	**–**	**7,451**
– France	**1,860**	**154**	**(5)**	**(4)**	**–**	**6,371**
– Belgium	**16**	**7**	**(2)**	**–**	**–**	**21**
– Czech Republic	**31**	**17**	**(4)**	**–**	**–**	**57**
– Greece	**70**	**9**	**(2)**	**–**	**–**	**324**
– Ireland	**70**	**31**	**(3)**	**–**	**–**	**104**
– Italy	**53**	**14**	**(1)**	**–**	**–**	**66**
– Luxembourg	**75**	**(15)**	**–**	**4**	**–**	**245**
– Netherlands	**56**	**33**	**(8)**	**–**	**–**	**65**
– Spain	**63**	**28**	**(4)**	**16**	**–**	**90**
– Sweden	**4**	**–**	**–**	**–**	**–**	**14**
– United Kingdom	**–**	**–**	**–**	**–**	**–**	**–**
– Poland	**41**	**16**	**(3)**	**(2)**	**–**	**94**
– Others	**(9)**	**(9)**	**–**	**1**	**–**	**–**

	At 31 Dec 2020					
	Net Operating Income	Profit/(loss) Before Tax/	Current Tax	Deferred Tax	Public subsidies received[1]	Number of employees
	€m	€m	€m	€m	€m	(Full Time Equivalent)
HSBC Continental Europe	1,832	(945)	(52)	(28)	—	8,517
– France	1,427	(1,013)	(17)	(31)	—	7,238
– Belgium	11	2	—	—	—	25
– Czech Republic	32	16	(3)	—	—	79
– Greece	32	(23)	—	—	—	334
– Ireland	56	22	(2)	—	—	117
– Italy	44	(3)	(6)	—	—	115
– Luxembourg	66	(7)	—	2	—	262
– Netherlands	62	43	(11)	—	—	59
– Spain	74	20	(9)	—	—	136
– Sweden	2	(2)	—	—	—	10
– United Kingdom	—	—	—	—	—	—
– Poland	45	19	(4)	—	—	142
– Others	(19)	(19)	—	1	—	—

The list of subsidiaries by country detailing the names of entities, nature of activity and geographical location, is presented in the Note 35 on pages 235 to 237. The addresses of main locations abroad are presented on page 293.

19 Structured entities

Consolidated structured entities by HSBC Continental Europe

Total assets of HSBC Continental Europe's consolidated structured entities, split by entity type

	Conduits	Securitisations	HSBC managed funds	Other	Total
	€m	€m	€m	€m	€m
At 31 Dec 2021	**—**	**100**	**5,294**	**641**	**6,035**
At 31 Dec 2020	—	82	3,923	1,171	5,176

General policy

A structured entity is an entity designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. Thus, these entities have a limited scope of activities and a well-defined purpose.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 1.

HSBC Continental Europe is involved directly or indirectly with structured entities mainly through securitisation of financial assets, conduits and investment funds.

Group arrangements that involve structured entities are authorised centrally when they are established to ensure appropriate purpose and governance. The activities of structured entities administered by HSBC Continental Europe are closely monitored by senior management. HSBC Continental Europe has involvement with both consolidated and unconsolidated structured entities, which may be established by the group or by a third party, detailed below.

Securitisations

HSBC Continental Europe has interests in consolidated securitisation vehicles through holding notes issued by these entities.

HSBC managed funds

HSBC Continental Europe together with other HSBC entities has established and managed a number of money market and non-money market investment funds in order to offer its customer investment opportunities. Where it is deemed to be acting as principal rather than agent in its role as investment manager, HSBC Continental Europe will control and hence consolidate these funds.

HSBC Continental Europe, as fund manager, may be entitled to receive management and performance fees based on the assets under management. HSBC Continental Europe may also retain units in these funds.

Non-HSBC managed funds

HSBC Continental Europe purchases and holds units of third party managed funds in order to facilitate business and meet customer needs.

HSBC Continental Europe sponsored structured entities

The amount of assets transferred to and income received from such sponsored entities during 2021 and 2020 was not significant.

Others

HSBC Continental Europe also enters into a number of transactions in the normal course of business, including asset and structured finance transactions where it has control of the structured entity.

Unconsolidated structured entities by HSBC Continental Europe

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the group. It includes interests in structured entities that are not consolidated. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which the group has an interest at the reporting date, as well as the group's maximum exposure to loss in relation to those interests.

Nature and risks associated with HSBC Continental Europe interests in unconsolidated structured entities

	Securitisations	HSBC managed funds	Non-HSBC managed funds	Other	Total
Total asset values of the entities (€m)					
0 – 500	**—**	**99**	**114**	**4**	**217**
500 – 2,000	**—**	**32**	**63**	**—**	**95**
2,000 – 5,000	**—**	**1**	**33**	**—**	**34**
5,000 – 25,000	**—**	**—**	**22**	**—**	**22**
Number of entities at 31 Dec 2021	**—**	**132**	**232**	**4**	**368**
Total asset values of the entities (€m)					
0 – 500	—	100	117	11	228
500 – 2,000	—	32	68	—	100
2,000 – 5,000	—	1	27	—	28
5,000 – 25,000	—	—	21	—	21
Number of entities at 31 Dec 2020	—	133	233	11	377
	€m	**€m**	**€m**	**€m**	**€m**
Total assets in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	**—**	**2,804**	**2,282**	**—**	**5,086**
– financial assets designated and otherwise mandatorily measured at fair value	**—**	**2,804**	**2,282**	**—**	**5,086**
– financial investments	**—**	**—**	**—**	**—**	**—**
Total liabilities in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	**—**	**—**	**—**	**—**	**—**
Other off balance sheet commitments	**—**	**—**	**—**	**—**	**—**
HSBC Continental Europe's maximum exposure at 31 Dec 2021	**—**	**2,804**	**2,282**	**—**	**5,086**
	€m	€m	€m	€m	€m
Total assets in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	—	2,408	2,221	11	4,640
– financial assets designated and otherwise mandatorily measured at fair value	—	2,408	2,021	—	4,429
– financial investments	—	—	200	11	211
Total liabilities in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	—	—	—	—	—
Other off balance sheet commitments	—	—	—	(37)	(37)
HSBC Continental Europe's maximum exposure at 31 Dec 2020	—	2,408	2,221	(26)	4,603

The maximum exposure to loss from HSBC Continental Europe's interests in unconsolidated structured entities represents the maximum loss it could incur as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

- For commitments and guarantees, and written credit default swaps, the maximum exposure of HSBC Continental Europe to loss is the notional amount of potential future losses.
- For retained and purchased investments in and loans to unconsolidated structured entities, the maximum exposure of HSBC Continental Europe loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate HSBC Continental Europe's exposure to loss.

20 Goodwill and intangible assets

	2021	2020
	€m	€m
Goodwill	**66**	66
Present value of in force long term insurance business ('PVIF')	**677**	490
Other intangible assets[1]	**20**	23
At 31 Dec	**763**	579

1 *Other intangible assets is predominantly internally generated software of HSBC Continental Europe's branches in the European Economic Area.*

Goodwill

Movement analysis of goodwill

	2021	2020
	€m	€m
Gross amount		
At 1 Jan	**386**	382
Exchange differences	**—**	—
Other[1]	**—**	4
At 31 Dec	**386**	386
Accumulated impairment losses		
At 1 Jan	**(320)**	(316)
Exchange differences	**—**	—
Other[1]	**—**	(4)
At 31 Dec	**(320)**	(320)
Net carrying amount at 31 Dec	**66**	66

1 *During the year 2020, the remaining goodwill at HSBC Continental Europe level, excluding the goodwill in the Asset Management subsidiary, was impaired.*

Impairment testing

During 2021, impairment testing was performed and no impairment was recognised to the Asset Management goodwill.

Impairment results and key assumptions in VIU calculation

	Goodwill at 31 Dec 2021	Discount rate	Growth rate beyond initial cash flow projections	Goodwill at 31 Dec 2020	Discount rate	Growth rate beyond initial cash flow projections
	€m	%	%	€m	%	%
Asset Management	**66**	**8.0**	**1.5**	66	9.1	1.5
Total goodwill in the CGUs[1] listed above	**66**			66		

1 *Cash-Generating Units.*

Other intangible assets

Other intangible assets include mortgage servicing rights, computer software, trade names, customer lists, core deposit relationships, credit card customer relationships or other loan relationships. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Where:

- intangible assets have an indefinite useful life, or are not yet ready for use, they are tested for impairment annually. An intangible asset recognised during the current period is tested before the end of the current year; and
- intangible assets have a finite useful life, except for the present value of in-force long-term insurance business, they are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The amortisation of mortgage servicing rights is included within 'Net fee income'.

Intangible assets with finite useful lives are amortised, generally on a straight-line basis, over their useful lives as follows:

- Trade names 10 years
- Internally generated software between 3 and 10 years
- Purchased software between 3 and 10 years
- Other generally 10 years.

The analysis of intangible assets movements at 31 December is as follows:

	Internally generated software €m	Purchased software €m	Other €m	Total €m
Cost				
At 1 Jan 2021	**216**	**66**	**15**	**297**
Additions	**5**	**1**	**—**	**6**
Disposals	**—**	**—**	**—**	**—**
Amount written off	**(6)**	**—**	**—**	**(6)**
Exchange differences	**—**	**—**	**—**	**—**
Other changes	**(1)**	**—**	**(2)**	**(3)**
At 31 Dec 2021	**214**	**67**	**13**	**294**
Accumulated amortisation and impairment				
At 1 Jan 2021	**(194)**	**(65)**	**(15)**	**(274)**
Amortisation charge for the year	**(5)**	**(1)**	**—**	**(6)**
Impairment charge for the year	**—**	**(1)**	**—**	**(1)**
Amount written off	**6**	**—**	**—**	**6**
Disposals	**—**	**—**	**—**	**—**
Exchange differences	**—**	**—**	**—**	**—**
Other changes	**(1)**	**—**	**2**	**1**
At 31 Dec 2021	**(194)**	**(67)**	**(13)**	**(274)**
Net carrying amount at 31 December 2021	**20**	**—**	**—**	**20**
Cost				
At 1 Jan 2020	344	71	15	430
Additions	36	2	—	38
Disposals	—	—	—	—
Amount written off	(162)	—	—	(162)
Exchange differences	—	—	—	—
Other changes	(2)	(7)	—	(9)
At 31 Dec 2020	216	66	15	297
Accumulated amortisation and impairment				
At 1 Jan 2020	(43)	(59)	(14)	(116)
Amortisation charge for the year	(20)	(2)	—	(22)
Impairment charge for the year[1]	(287)	(7)	—	(294)
Amount written off	162	—	—	162
Disposals	—	—	—	—
Exchange differences	—	—	—	—
Other changes	(6)	3	(1)	(4)
At 31 Dec 2020	(194)	(65)	(15)	(274)
Net carrying amount at 31 December 2020	22	1	—	23

1 *During 2020, EUR 294 million of capitalised software assets were impaired and written off as a result of the impairment testing.*

Present value of in-force long-term insurance business ('PVIF')

When calculating the present value of in-force long-term ('PVIF') insurance business, expected cash flows are projected after adjusting for a variety of assumptions made by each insurance operation to reflect local market conditions and management's judgement of future trends and uncertainty in the underlying assumptions is reflected by applying margins (as opposed to a cost of capital methodology) including valuing the cost of policyholder options and guarantees using stochastic techniques.

The Actuarial Control Committee of *HSBC Assurances Vie* (France) meet on a quarterly basis to review and approve PVIF assumptions. All changes to non-economic assumptions, economic assumptions that are not observable and model methodology must be approved by the Actuarial Control Committee.

Movements in PVIF

	2021 €m	2020 €m
PVIF at 1 January	**490**	613
Change in PVIF of long-term insurance business	**187**	(123)
– value of new business written during the year	**39**	24
– expected return	**(58)**	(65)
– assumption changes and experience variances	**206**	(82)
– other adjustments	**—**	—
Exchange difference and other	**—**	—
PVIF at 31 December	**677**	490

The PVIF increased from EUR 490 million as of 31 December 2020 to EUR 677 million as of 31 December 2021. The positive movement of EUR 187 million is mainly due to following items:

- a positive impact of current year new business of EUR 39 million which partially offsets the negative impact of the Moving forward of EUR (58) million;

- a positive effect of assumption changes and experience variance of EUR 206 million driven by:
  - a positive impact of the economic environment of EUR 186 million mainly explained by the increase of the interest rates and the performance of equity markets over the year 2021;
  - a positive impact of experience variances of EUR 47 million mainly due to the improvement of profiles on regular premiums of the contracts owing to business initiatives during the year;
  - a negative effect of changes in assumptions and other evolutions of EUR (27) million mainly due to the impact of model changes and refinement of model inputs of EUR (24) million, the update of the prospective non-economic assumptions of EUR (7) million, the decrease in other technical reserves of EUR (2) million, offset by the increase in switches and UCITS investment commissions of EUR 8 million.

Key assumptions used in the computation of PVIF for main life insurance operations

Economic assumptions are set in a way that is consistent with observable market values. The valuation of PVIF is sensitive to observed market movements and the impact of such changes is included in the sensitivities presented below.

	2021	2020
	%	%
Weighted average risk free rate	**0.69**	0.34
Weighted average risk discount rate[1]	**1.55**	1.34
Expenses inflation	**1.80**	1.60

1 *For 2021, market value future profits' discounted rate used for the PVIF is 1.55 per cent, to which a risk margin of EUR 182 million is added. In 2020, the market value future profits' discounted rate was 1.34 per cent, to which a risk margin of EUR 175.3 million was added.*

Sensitivity to changes in economic assumptions

The risk discount rate applied to the PVIF calculation is set by starting from a risk-free rate curve and adding explicit allowances for risks not reflected in the best estimate cash flow modelling. Where the insurance operations provide options and guarantees to policyholders, the cost of these options and guarantees is accounted for as a deduction from the present value of in-force 'PVIF' asset, unless the cost of such guarantees is already allowed for as an explicit addition to liabilities under insurance contracts. See page 173 for further details of these guarantees and the impact of changes in economic assumptions on HSBC Assurances Vie (France).

Sensitivity to changes in non-economic assumptions

Policyholder liabilities and PVIF are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. See page 174 for further details on the impact of changes in non-economic assumptions on our insurance manufacturing operations.

21 Prepayments, accrued income and other assets

	2021	2020
	€m	€m
Prepayments and accrued income	**736**	569
Settlement accounts	**856**	2,440
Cash collateral and margin receivables	**9,903**	15,948
Endorsements and acceptances	**6**	7
Reinsurers' share of liabilities under insurance contracts (Note 4)	**2**	2
Employee benefit assets (Note 5)	**—**	—
Other accounts	**1,948**	1,607
Right-of-use-Assets[1]	**176**	270
Property, plant and equipment	**911**	892
At 31 Dec	**14,538**	21,735

1 *The net value of the right of use breaks down into EUR 396 million as gross value (2020: EUR 454 million) and EUR - 220 million as depreciation and provisions (2020: EUR - 184 million). Net ROU assets amounting to EUR 49 million* (2020: EUR 72 million) *have been recognised where the contracts are enforceable beyond their contractual end date based on management's best estimate of lease duration.*

Prepayments, accrued income and other assets include EUR 13,248 million (2020: EUR 20,530 million) of financial assets, the majority of which are measured at amortised cost.

Property, plant and equipment

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRS, less any impairment losses and depreciation calculated as per below:

- freehold land is not depreciated;
- acquisition-related expenses on buildings are expensed in the year in which they occur, same as preliminary costs;
- depreciation of buildings is calculated over their estimated useful lives, which are generally between 25 to 75 years.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC Continental Europe is the lessor) are stated at cost less impairment losses and depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 to 25 years. HSBC Continental Europe holds certain properties as investments to earn rentals or for capital appreciation, or both. Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques. Property, plant and equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

	Freehold land and buildings[1]	Equipment, fixtures and fittings	Total
	€m	€m	€m
Cost or fair value			
At 1 Jan 2021	**902**	**583**	**1,485**
Additions at cost	**2**	**36**	**38**
Fair value adjustments	**13**	**—**	**13**
Disposals	**(1)**	**(8)**	**(9)**
Transfers	**—**	**—**	**—**
Exchange and other differences	**—**	**—**	**—**
Changes in scope of consolidation and other changes	**—**	**(2)**	**(2)**
At 31 Dec 2021	**916**	**609**	**1,525**
Accumulated depreciation			
At 1 Jan 2021	**(57)**	**(536)**	**(593)**
Depreciation charge for the year	**(1)**	**(13)**	**(14)**
Disposals	**1**	**7**	**8**
Transfers	**—**	**—**	**—**
Impairment loss recognised	**—**	**(17)**	**(17)**
Exchange translation differences	**—**	**—**	**—**
Changes in scope of consolidation and other changes	**—**	**2**	**2**
At 31 Dec 2021	**(57)**	**(557)**	**(614)**
Net book value at 31 Dec 2021	**859**	**52**	**911**
Cost or fair value			
At 1 Jan 2020	883	599	1,482
Additions at cost	—	49	49
Fair value adjustments	20	—	20
Disposals	(2)	(65)	(67)
Transfers	—	—	—
Exchange and other differences	—	—	—
Changes in scope of consolidation and other changes	1	—	1
At 31 Dec 2020	902	583	1,485
Accumulated depreciation			
At 1 Jan 2020	(45)	(462)	(507)
Depreciation charge for the year	(4)	(48)	(52)
Disposals	1	65	66
Transfers	—	—	—
Impairment loss recognised	(9)	(92)	(101)
Exchange translation differences	—	—	—
Changes in scope of consolidation and other changes	—	1	1
At 31 Dec 2020	(57)	(536)	(593)
Net book value at 31 Dec 2020	845	47	892

1 *It includes EUR 17 million of leasehold land and building for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities (2020 : EUR 15 million). They are therefore presented as owned assets.*

Impairment Testing

During 2021, we considered the signing of the Framework Agreement for the planned sale of retail banking business (refer Note 1.3) to be an indicator of impairment for the France principal operating entity. Impairment testing was performed. As in 2020, EUR 206 million of tangible asset impairments were already impaired, primarily right-of-use assets for leased office, commercial and retail branches and fixtures and fittings and due to the continued negative headroom, these non-financial assets remained impaired up to their recoverable amounts. Their recoverable amounts have been assessed in 2021, based on market and contractual factors.

We used a number of assumptions in our VIU calculation, in accordance with our policy. See Note 1.2 (n):

- Management's judgement in estimating future cash flows: we considered past business performance, the scale of the current impact from Covid-19 outbreak on our operations, current market conditions, and our macroeconomic outlook to estimate future earnings. As required by IFRSs, estimates of future cash flows exclude estimated cash inflows or outflows that are expected to arise from restructuring initiatives before an entity has a constructive obligation to carry out the plan, and would therefore have recognised a provision for restructuring costs. This means that the benefits of certain strategic actions are not included in this impairment assessment.
- Long-term growth rates: The long-term growth rate is used to extrapolate cash flows in perpetuity because of the long-term perspective within the group.
- Discount rate: Rates are based on a Capital asset pricing model ('CAPM') calculation.

Impairments were assessed as not sensitive to reasonable possible changes in assumptions.

22 Trading liabilities

	2021	2020
	€m	€m
Deposits by banks[1]	4	—
Customer accounts[1]	5	—
Other debt securities in issue	—	—
Other liabilities – net short positions in securities	16,238	17,828
At 31 Dec	16,247	17,828

1 *'Deposits by banks' and 'Customer accounts' include repos, stock lending and other amounts.*

23 Financial liabilities designated at fair value

	2021	2020
	€m	€m
Deposits by banks and customer accounts	68	76
Liabilities to customers under investment contracts	14	14
Debt securities in issue	13,651	16,802
Subordinated liabilities (Note 26)	—	—
Preferred securities	—	—
At 31 Dec	13,733	16,892

At 31 December 2021 the carrying amount of financial liabilities designated at fair value was EUR 689 million higher than the contractual amount at maturity (at 31 December 2020: EUR 921 million). At 31 December 2021, the cumulative amount of change in fair value attributable to changes in credit risk was EUR 111 million (at 31 December 2020: EUR 127 million). In 2021, HSBC Continental Europe recognised a positive variation of EUR 7 million in other comprehensive income in respect of HSBC Continental Europe's own credit risk (at 31 December 2020: EUR (4) million).

24 Accruals, deferred income and other liabilities

	2021	2020
	€m	€m
Accruals and deferred income	749	764
Settlement accounts	1,682	696
Cash collateral and margin payables	11,891	15,509
Endorsements and acceptances	6	7
Employee benefit liabilities (Note 5)	126	175
Lease liabilities	308	420
Other liabilities	3,360	2,546
At 31 Dec	18,122	20,117

25 Provisions

HSBC Continental Europe recognises a provision when the following three criteria are met:

- existence of a present obligation occurring from a past event;
- it is probable that an outflow of resources will be required to settle the obligation;
- a reliable estimate of the amount can be made.

	Restructuring costs[1]	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2020	268	41	14	323
Additions	**2**	**7**	**24**	**33**
Amounts utilised	**(119)**	**(36)**	**(11)**	**(166)**
Unused amounts reversed[1]	**(29)**	**(1)**	**(8)**	**(38)**
Exchange and other movements[2]	**14**	**9**	**4**	**27**
At 31 Dec 2021	**136**	**20**	**23**	**179**
Contractual commitments[3]				
At 31 Dec 2020				74
Net change in expected credit loss provisions and other movements				**(19)**
At 31 Dec 2021				**55**
Total provisions				
At 31 Dec 2020				397
At 31 Dec 2021				**234**

1 *Includes EUR (25) million reversal of provisions related to social plans. See Note 1.3 of* Universal Registration Document 2020*.*
2 *Includes EUR 14 million transferred from other liabilities to provisions under "Restructuring Costs".*
3 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table under section 'Credit Risk'.*

	Restructuring costs[1]	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2019	22	44	33	99
Additions	278	5	14	297
Amounts utilised	(13)	(5)	(26)	(44)
Unused amounts reversed	(5)	(2)	(7)	(14)
Exchange and other movements[2]	(14)	(1)	—	(15)
At 31 Dec 2020	268	41	14	323
Contractual commitments				
At 31 Dec 2019				61
Net change in expected credit loss provisions and other movements				13
At 31 Dec 2020				74
Total provisions				
At 31 Dec 2019				160
At 31 Dec 2020				397

1 *Includes restructuring provision of EUR 278 million in 2020 (refer Note 1.3 of* Universal Registration Document 2020*).*
2 *Includes amount transferred to Other Liabilities.*

Further details of 'Legal proceedings and regulatory matters' regarding the HSBC Group entities are set out in Note 32.

26 Subordinated liabilities

Subordinated liabilities are initially measured at fair value, which is the consideration received net of directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method to amortise the difference between proceeds net of directly attributable transaction costs and the redemption amount over the expected life of the debt, unless the instruments are designated at fair value.

	2021	2020
	€m	€m
At amortised cost	**1,876**	1,876
Designated at fair value (Note 23)	**—**	—
Total at 31 Dec	**1,876**	1,876

		Book value	
		2021	2020
		€m	€m
Tier 2 instruments issued by HSBC Continental Europe			
EUR 16 million	Undated subordinated variable rate notes	**16**	16
EUR 300 million	Floating rate notes maturing 2027	**300**	300
EUR 300 million	Floating rate notes maturing 2028	**300**	300
EUR 400 million	Floating rate notes maturing 2029	**400**	400
EUR 100 million	Floating rate notes maturing 2029	**100**	100
EUR 260 million	Floating rate notes maturing 2029	**260**	260
EUR 500 million	Floating rate notes maturing 2030	**500**	500
At 31 Dec		**1,876**	1,876

27 Maturity analysis of financial assets, liabilities and off-balance sheet commitments

Contractual maturity of financial liabilities

The balances in the table below do not agree directly with those in the consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives).

Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'On demand' time bucket and not by contractual maturity.

In addition, loans and other credit-related commitments, financial guarantees and similar contracts are generally not recognised on the balance sheet. The undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified on the basis of the earliest date they can be called.

Distribution of cash flows payable by maturity

	2021					
	Due not more than 1 month	**Due over 1 month but not over 3 months**	**Due between 3 and 12 months**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Deposits by banks	**6,616**	**175**	**33**	**11,421**	**187**	**18,432**
Customer accounts	**67,018**	**1,900**	**1,055**	**131**	**78**	**70,182**
Repurchase Agreements – non–trading	**8,315**	**416**	**—**	**—**	**—**	**8,731**
Trading liabilities	**16,247**	**—**	**—**	**—**	**—**	**16,247**
Financial liabilities designated at fair value	**17**	**1,419**	**702**	**6,839**	**4,577**	**13,554**
Derivatives	**35,860**	**—**	**—**	**31**	**8**	**35,899**
Debt securities in issue	**677**	**1,232**	**2,032**	**2,356**	**771**	**7,068**
Subordinated liabilities	**—**	**—**	**301**	**1,590**	**16**	**1,907**
Other financial liabilities	**15,584**	**79**	**413**	**199**	**1,647**	**17,922**
Sub Total	**150,334**	**5,221**	**4,536**	**22,567**	**7,284**	**189,942**
Loan and other credit-related commitments	**89,321**	**—**	**—**	**—**	**—**	**89,321**
Financial guarantees	**9,614**	**—**	**—**	**—**	**—**	**9,614**
Total at 31 Dec 2021	**249,269**	**5,221**	**4,536**	**22,567**	**7,284**	**288,877**
Proportion of cash flows payable in period (%)	**86 %**	**2%**	**2%**	**8%**	**2%**	
	2020					
Deposits by banks	6,049	3	17	10,796	215	17,080
Customer accounts	58,540	1,411	1,266	131	81	61,429
Repurchase Agreements – non–trading	10,177	803	4	—	—	10,984
Trading liabilities	17,828	—	—	—	—	17,828
Financial liabilities designated at fair value	126	49	2,350	9,171	6,005	17,701
Derivatives	55,660	2	—	43	20	55,725
Debt securities in issue	—	—	1,141	2,118	346	3,605
Subordinated liabilities	—	—	—	1,886	17	1,903
Other financial liabilities	17,780	89	374	310	1,260	19,813
Sub Total	166,160	2,357	5,152	24,455	7,944	206,068
Loan and other credit-related commitments	99,557	—	—	—	—	99,557
Financial guarantees	1,050	—	—	—	—	1,050
Total at 31 Dec 2020	266,767	2,357	5,152	24,455	7,944	306,675
Proportion of cash flows payable in period	87%	1%	2%	8%	2%	

Maturity analysis of financial assets and liabilities

The following tables provides an analysis of financial assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due over five years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due over five years' time bucket;

- financial instruments are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction;
- liabilities under investment contracts are classified in the 'due less than 5 years' time buckets.

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets									
Cash and balances at central banks	38,063	–	–	–	–	–	–	–	38,063
Items in the course of collection from other banks	156	–	–	–	–	–	–	–	156
Trading assets	12,921	–	–	–	–	–	–	–	12,921
Financial assets designated or otherwise mandatorily measured at fair value	25	43	300	92	62	89	163	12,571	13,345
Derivatives	39,611	–	22	–	1	–	–	–	39,634
Loans and advances to banks	4,333	42	286	2	28	1,829	311	1	6,832
Loans and advances to customers	6,117	2,023	4,411	2,904	2,676	8,052	17,386	16,043	59,612
– personal	853	383	523	514	528	1,904	5,134	13,237	23,076
– corporate and commercial	4,996	1,499	3,611	1,673	1,998	4,858	11,141	2,635	32,411
– financial	268	141	277	717	150	1,290	1,111	171	4,125
Reverse repurchase agreements – non-trading	16,277	1,707	1,907	86	10	500	–	–	20,487
Financial investments	710	155	575	170	260	2,503	4,048	7,689	16,110
Accrued income and other financial assets	12,852	49	117	6	6	45	29	149	13,253
Total financial assets at 31 Dec 2021	131,065	4,019	7,618	3,260	3,043	13,018	21,937	36,453	220,413
Non-financial assets								2,251	2,251
Total assets at 31 Dec 2021	131,065	4,019	7,618	3,260	3,043	13,018	21,937	38,704	222,664
Off-balance sheet commitments received									
Loan and other credit-related commitments	40,820	–	–	–	–	–	–	–	40,820
Financial liabilities									–
Deposits by banks	6,613	175	23	–	10	10,155	1,385	187	18,548
Customer accounts	67,013	1,900	475	56	525	67	60	48	70,144
– personal	21,675	31	36	27	37	66	60	20	21,952
– corporate and commercial	35,797	1,790	438	27	488	1	–	28	38,569
– financial	9,541	79	1	2	–	–	–	–	9,623
Repurchase agreements – non-trading	8,315	416	–	–	–	–	–	–	8,731
Items in the course of transmission to other banks	280								280
Trading liabilities	16,247	–	–	–	–	–	–	–	16,247
Financial liabilities designated at fair value	20	1,418	303	113	302	3,332	3,737	4,508	13,733
– debt securities in issue: covered bonds	–	1,002	–	–	–	1,304	1,021	–	3,327
– debt securities in issue: unsecured	6	416	300	113	302	2,028	2,716	4,443	10,324
– other	14	–	3	–	–	–	–	65	82
Derivatives	35,859	–	–	–	–	27	1	8	35,895
Debt securities in issue	677	1,232	1,075	460	505	819	1,715	931	7,414
– covered bonds	–	–	–	–	–	–	–	–	–
– unsecured	677	1,232	1,075	460	505	819	1,715	931	7,414
Accruals and other financial liabilities	15,337	93	339	33	62	77	167	1,743	17,851
Subordinated liabilities	–	–	300	–	–	300	1,260	16	1,876
Total financial liabilities at 31 Dec 2021	150,361	5,234	2,515	662	1,404	14,777	8,325	7,441	190,719
Non-financial liabilities								24,269	24,269
Total liabilities at 31 Dec 2021	150,361	5,234	2,515	662	1,404	14,777	8,325	31,710	214,988
Off-balance sheet commitments given									–
Loan and other credit-related commitments	89,321	–	–	–	–	–	–	–	89,321
– personal	1,326	–	–	–	–	–	–	–	1,326
– corporate and commercial	40,875	–	–	–	–	–	–	–	40,875
– financial	47,120	–	–	–	–	–	–	–	47,120

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial 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 at fair value	—	6	15	124	134	530	204	10,635	11,648
Derivatives	56,457	—	3	—	—	15	—	—	56,475
Loans and advances to banks	3,711	39	230	313	27	2,015	421	25	6,781
Loans and advances to customers	4,922	1,093	5,468	3,538	2,283	6,941	14,972	17,008	56,225
– personal	819	374	529	515	509	1,889	5,208	12,849	22,692
– corporate and commercial	3,785	664	4,720	2,654	1,613	4,375	8,727	3,844	30,382
– financial	318	55	219	369	161	677	1,037	315	3,151
Reverse repurchase agreements – non-trading	12,463	4,396	3,412	391	350	10	500	—	21,522
Financial investments	844	345	797	422	596	1,372	6,432	8,359	19,167
Accrued income and other financial assets	20,017	39	115	7	70	33	70	180	20,531
Financial assets at 31 Dec 2020	141,100	5,918	10,040	4,795	3,460	10,916	22,599	36,207	235,035
Non-financial assets								2,064	2,064
Total assets at 31 Dec 2020	141,100	5,918	10,040	4,795	3,460	10,916	22,599	38,271	237,099
Off-balance sheet commitments received									
Loan and other credit-related commitments	49,675	—	—	—	—	—	—	—	49,675
Financial liabilities									
Deposits by banks	6,044	2	9	—	9	18	10,907	215	17,204
Customer accounts	58,534	1,411	664	235	367	67	58	57	61,393
– personal	20,554	36	37	29	42	65	55	29	20,847
– corporate and commercial	33,149	1,332	571	206	325	2	3	28	35,616
– financial	4,831	43	56	—	—	—	—	—	4,930
Repurchase agreements – non-trading	10,176	804	2	2	—	—	—	—	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	126	49	145	2,049	155	2,040	6,876	5,452	16,892
– debt securities in issue: covered bonds	—	—	—	—	—	1,011	2,380	—	3,391
– debt securities in issue: unsecured	112	49	136	2,049	155	1,029	4,496	5,385	13,411
– subordinated liabilities and preferred securities	—	—	—	—	—	—	—	—	—
– other	14	—	9	—	—	—	—	67	90
Derivatives	55,659	—	—	—	—	—	38	17	55,714
Debt securities in issue	—	—	470	380	291	510	1,608	346	3,605
– covered bonds	—	—	—	—	—	—	—	—	—
– unsecured	—	—	470	380	291	510	1,608	346	3,605
Accruals and other financial liabilities	17,554	104	291	16	90	75	270	1,390	19,790
Subordinated liabilities	—	—	—	—	—	300	1,560	16	1,876
Total financial liabilities at 31 Dec 2020	166,119	2,370	1,581	2,682	912	3,010	21,317	7,493	205,484
Non-financial liabilities								24,156	24,156
Total liabilities at 31 Dec 2020	166,119	2,370	1,581	2,682	912	3,010	21,317	31,649	229,640
Off-balance sheet commitments given									
Loan and other credit-related commitments	99,557	—	—	—	—	—	—	—	99,557
– personal	1,352	—	—	—	—	—	—	—	1,352
– corporate and commercial	42,767	—	—	—	—	—	—	—	42,767
– financial	55,438	—	—	—	—	—	—	—	55,438

Further information regarding HSBC Continental Europe's liquidity and funding management is available in the Risk Management section pages 146 and following.

28 Offsetting of financial assets and financial liabilities

The 'Amounts not set off in the balance sheet' include transactions where:

- The counterparty has an offsetting exposure with HSBC Continental Europe and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are not otherwise satisfied.
- In the case of derivatives, reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral has been received/pledged.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored, and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right to offset remains appropriate.

Offsetting of financial assets and financial liabilities

	Amounts subject to enforceable netting arrangements								
				Amounts not offset in the balance sheet					
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial Instruments	Non-Cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets									
Derivatives (Note 14)[1]	**45,781**	**(6,190)**	**39,591**	**(28,079)**	**(33)**	**(11,432)**	**47**	**43**	**39,634**
Reverse repos, stock borrowing and similar agreements classified as:[2]	**51,887**	**(30,873)**	**21,014**	**(2,120)**	**(18,735)**	**(159)**	**—**	**—**	**21,014**
– trading assets	**527**	**—**	**527**	**—**	**(527)**	**—**	**—**	**—**	**527**
– non-trading assets	**51,360**	**(30,873)**	**20,487**	**(2,120)**	**(18,208)**	**(159)**	**—**	**—**	**20,487**
Loans and advances to customers[3]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2021	**97,668**	**(37,063)**	**60,605**	**(30,199)**	**(18,768)**	**(11,591)**	**47**	**43**	**60,648**
Derivatives (Note 14)[1]	63,518	(7,126)	56,392	(40,873)	(360)	(14,969)	190	83	56,475
Reverse repos, stock borrowing and similar agreements classified as[2]	53,855	(32,306)	21,549	(2,638)	(18,868)	(42)	1	20	21,569
– trading assets	27	—	27	—	(26)	—	1	—	27
– non-trading assets	53,828	(32,306)	21,522	(2,638)	(18,842)	(42)	—	20	21,542
Loans and advances to customers[3]	—	—	—	—	—	—	—	—	—
At 31 Dec 2020	117,373	(39,432)	77,941	(43,511)	(19,228)	(15,011)	191	103	78,044
Financial Liabilities									
Derivatives (Note 14)[1]	**42,054**	**(6,190)**	**35,864**	**(28,079)**	**(260)**	**(7,201)**	**324**	**31**	**35,895**
Repos, stock borrowing and similar agreements classified as[2]	**39,613**	**(30,873)**	**8,740**	**(2,120)**	**(6,437)**	**(182)**	**1**	**—**	**8,740**
– trading liabilities	**9**	**—**	**9**	**—**	**(9)**	**—**	**—**	**—**	**9**
– non-trading liabilities	**39,604**	**(30,873)**	**8,731**	**(2,120)**	**(6,428)**	**(182)**	**1**	**—**	**8,731**
Customer accounts excluding repos[4]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2021	**81,667**	**(37,063)**	**44,604**	**(30,199)**	**(6,697)**	**(7,383)**	**325**	**31**	**44,635**
Derivatives (Note 14)[1]	62,742	(7,126)	55,616	(40,873)	(1,137)	(13,557)	49	98	55,714
Repos, stock borrowing and similar agreements classified as:[2]	43,290	(32,306)	10,984	(2,638)	(8,113)	(232)	1	—	10,984
– trading liabilities	—	—	—	—	—	—	—	—	—
– non-trading liabilities	43,290	(32,306)	10,984	(2,638)	(8,113)	(232)	1	—	10,984
Customer accounts excluding repos[4]	—	—	—	—	—	—	—	—	—
At 31 Dec 2020	106,032	(39,432)	66,600	(43,511)	(9,250)	(13,789)	50	98	66,698

1 *At 31 December 2021, the amount of cash margin received that had been offset against the gross derivatives assets was EUR 385 million (2020: EUR 779 million). The amount of cash margin paid that had been offset against the gross derivatives liabilities was EUR 1,228 million (2020: EUR 1,994 million).*
2 *For the amount of repos, reverse repos, stock borrowing and similar agreements recognised on the balance sheet within 'Trading Assets' and 'Trading Liabilities' , see the 'Funding sources and uses' table on page 148.*
3 *At 31 December 2021, the total amount of 'Loans and advances to customers' was EUR 59,612 million (2020: EUR 56,225 million) of which EUR 0 million (2020: EUR 0 million) was subject to offsetting.*
4 *At 31 December 2021, the total amount of 'Customer accounts' was EUR 70,144 million (2020: EUR 61,393 million) of which EUR 0 million (2020: EUR 0 million) was subject to offsetting.*

29 Called up share capital and other equity instruments

Called up share capital and share premium

At 31 December 2021, HSBC Continental Europe's capital amounted to EUR 491 million divided into 98,231,196 ordinary shares with a nominal value of EUR 5, fully paid up.

HSBC Continental Europe ordinary shares of EUR 5 each, issued and fully paid

	2021		2020	
	Number	€m	Number	€m
At 1 Jan	**98,231,196**	**491**	98,231,196	491
Shares issued	**—**	**—**	—	—
At 31 Dec	**98,231,196**	**491**	98,231,196	491

HSBC Continental Europe share premium

	2021	2020
	€m	€m
At 31 Dec	**2,137**	2,137

Total called up share capital and share premium

	2021	2020
	€m	€m
At 31 Dec	**2,628**	2,628

Other equity instruments

Additional tier 1 capital instruments

HSBC Continental Europe's additional tier 1 capital instruments in issue which are accounted for as equity

		First call date	2021 €m	2020 €m
EUR 200 million	Perpetual Subordinated additional Tier 1 instruments issued in 2017	26/05/2022	**200**	200
EUR 300 million	Perpetual Subordinated additional Tier 1 instruments issued in 2018	28/03/2023	**300**	300
EUR 250 million	Perpetual Subordinated additional Tier 1 instruments issued in 2019	18/12/2024	**250**	250
At 31 Dec			**750**	750

30 Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

(a) Contingent liabilities and commitments

	2021	2020
	€m	€m
Guarantees and other contingent liabilities:		
– financial guarantees	**9,614**	1,051
– performance and other guarantees	**10,546**	8,313
– other contingent liabilities	**—**	89
At 31 Dec	**20,160**	9,453
Commitments:[1]		
– documentary credits and short-term trade-related transactions	**976**	669
– forward asset purchases and forward deposits placed	**34,472**	46,975
– standby facilities, credit lines and other commitments to lend	**53,872**	51,912
At 31 Dec	**89,320**	99,556

1 *Includes EUR 87,630 million of commitments at 31 December 2021 (2020: EUR 97,892 million), to which the impairment requirements in IFRS 9 are applied where HSBC Continental Europe has become party to an irrevocable commitment.*

The amounts disclosed in the above table reflect HSBC Continental Europe's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with HSBC Continental Europe's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to HSBC Continental Europe's annual credit review process. The total of the nominal principal amounts is not representative of future liquidity needs.

(b) Guarantees

HSBC Continental Europe provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the Group. These guarantees are generally provided in the normal course of HSBC Continental Europe's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which HSBC Continental Europe could be required to make at 31 December were as follows:

	2021		2020	
	In favour of third parties	In favour of other HSBC Group entities	In favour of third parties	In favour of other HSBC Group entities
	€m	€m	€m	€m
Guarantee type				
Financial guarantees contracts	**9,312**	**302**	744	307
Performance and other guarantees	**9,599**	**947**	7,475	838
At 31 Dec	**18,911**	**1,249**	8,219	1,145

Financial guarantees include undertakings to fulfil the obligations of customers or group entities, should the obligated party fail to do so. Financial guarantees also include stand-by letters of credit, which are financial guarantees given irrevocable obligations on the part of HSBC Continental Europe to pay a third party when a customer fails to meet a commitment.

Performance guarantees include performance bonds, direct credit substitutes, stand-by letters of credit related to particular transactions which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer. Other guarantees includes bid bonds and another transaction-related guarantees which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.

The amounts disclosed in the above table reflect HSBC Continental Europe's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with our overall credit risk management policies and procedures.

Guarantees with terms of more than one year are subject to the annual credit review process.

HSBC Continental Europe has no contingent liabilities or commitments in relation to joint ventures or associates, incurred jointly or otherwise.

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to HSBC Continental Europe's annual credit review process.

When HSBC Continental Europe gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

31 Finance lease receivables

HSBC Continental Europe leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2021			2020		
	Total future minimum payments	**Unearned finance income**	**Present Value**	Total future minimum payments	Unearned finance income	Present Value
	€m	**€m**	**€m**	€m	€m	€m
Lease receivables						
– No later than one year	**306**	**(21)**	**285**	270	(18)	252
– Later than one year and no later than five years	**674**	**(61)**	**613**	876	(63)	813
– One to two years	***209***	***(21)***	***188***	*205*	*(19)*	*186*
– Two to three years	***195***	***(18)***	***177***	*204*	*(17)*	*187*
– Three to four years	***188***	***(13)***	***175***	*340*	*(16)*	*324*
– Four to five years	***82***	***(9)***	***73***	*127*	*(11)*	*116*
– Later than five years	**554**	**(28)**	**526**	670	(34)	636
Total at 31 Dec	**1,534**	**(110)**	**1,424**	1,816	(115)	1,701

32 Legal proceedings and regulatory matters relating to HSBC group entities generally

HSBC Group entities, including HSBC Continental Europe, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 'Legal risks and litigation management' on pages 162 and 163 of the *Universal Registration Document 2021*, HSBC Continental Europe considers that none of these matters is significant. HSBC Continental Europe recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2021.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in July 2020, and consented to a cease-and-desist order with the Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who was, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act, and for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme.

In 2020, HSBC's engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, concluded. The role of FCA Skilled Person was assigned to a new individual in the second quarter of 2020. Separately, in early 2021, a new FRB Independent Consultant was appointed pursuant to the cease-and-desist order.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008 in the United States and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US by a trustee (the 'Trustee').

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities.

Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud, amongst which are HSBC Institutional Trust Services (Ireland) DAC ('HTIE') and/or its subsidiary Somers Dublin DAC.

On 1 August 2018 HSBC Continental Europe acquired from HSBC Bank plc 100 per cent of the shares of HTIE. Pursuant to the terms of the Sale and Purchase Agreement, HSBC Continental Europe and/or its subsidiaries will be indemnified by HSBC Bank plc in respect of certain liabilities relating to the activities of HTIE and/or Somers. (HTIE subsequently merged into HSBC Continental Europe Dublin Branch.)

The Madoff-related proceedings HTIE and/or its subsidiary Somers Dublin DAC are involved in are described below:

US litigation:

The Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court'), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the actions have moved to dismiss the Trustee's claims. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016.

In February 2019, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') reversed that dismissal. Following the US Supreme Court's denial of certiorari in June 2020, the cases were remanded to the US Bankruptcy Court, where they are now pending.

European interbank offered rates investigations

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America ('US'), the EU, Italy, Switzerland, and elsewhere are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates (Euribor). HSBC and/or its subsidiaries (including HSBC Continental Europe as a member of the Euribor panel) have been the subject of regulatory demands for information and have cooperated with those investigations and reviews.

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC Continental Europe. HSBC appealed the decision and, in September 2019, the General Court of the EU (the 'General Court') issued a decision largely upholding the EC's findings on liability, but annulling the fine. HSBC and the EC both appealed the General Court's decision to the European Court of Justice (the 'Court of Justice'). In June 2021, the Commission adopted a new fining decision for an amount which was 5 per cent less than the previously annulled fine, and subsequently withdrew its appeal to the Court of Justice. HSBC's appeal remains pending against the General Court's decision as well as its appeal against the new fining decision.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, following the conclusion of the US Department of Justice's ('DoJ') investigation into HSBC's historical foreign exchange activities, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. In January 2021, the FX DPA expired, and in August 2021 the charges deferred by the FX DPA were dismissed.

33 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in the United Kingdom.

Copies of the Group financial statements may be obtained from the following address:

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Key Management Personnel

The table below sets out transactions which fall under IAS 24 'Related Party Disclosures' between HSBC Continental Europe and the Key Management Personnel of HSBC Continental Europe and on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

Transactions and balances during the year with Key Management Personnel

	2021			2020		
	Number of persons	**Balance at 31 Dec[2]**	**Highest amounts outstanding during year[2]**	Number of persons	Balance at 31 Dec[2]	Highest amounts outstanding during year[2]
		€k	**€k**		€k	€k
Key Management Personnel[1]						
Advances and credits	**19**	**6,165**	**72,578**	21	26,215	44,237
Guarantees	**19**	**2,275**	**2,275**	21	2,275	3,495
Deposits	**19**	**70,429**	**195,019**	21	54,746	121,248

1 *Includes Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.*
2 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

Compensation to the Key Management Personnel of HSBC Continental Europe under IAS 24 is disclosed as follows:

Compensation of Key Management Personnel

	2021	2020
	€k	€k
Short-term employee benefits	211	247
Post-employment benefits	130	96
Other long-term employee benefits	—	—
Termination benefits	271	80
Share-based payments	862	1,094
At 31 Dec	**1,474**	1,517

Shareholdings, options and other securities of Key Management Personnel

	2021	2020
Number of options held over HSBC Holdings ordinary shares under employee share plans	—	—
Number of HSBC Holdings ordinary shares held beneficially and non-beneficially	1,407,735	1,340,992
At 31 Dec	**1,407,735**	1,340,992

The Corporate governance report also includes a detailed description of Directors' remuneration (see page 31 and following).

Transactions with other related parties

There is no significant amount due to joint ventures and associates.

Transactions detailed below include amounts due to/from HSBC Continental Europe and fellow subsidiaries of the HSBC Group.

Transactions and balances during the year with subsidiaries

	2021		2020	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	€m	€m	€m	€m
Assets				
Trading assets	66	28	8	8
Derivatives	20,367	14,314	22,886	20,420
Loans and advances to banks	2,658	2,030	2,403	1,519
Loans and advances to customers	133	133	180	124
Reverse repurchase agreement – non-trading	1,734	749	4,865	1,504
Financial investments	417	183	448	445
Other assets	7,026	832	6,807	971
Prepayments and accrued income	60	50	100	49
Financial asset designated at fair value	253	134	385	251
Liabilities				
Deposits by banks	5,507	2,225	6,118	1,782
Customer accounts	200	200	153	101
Repurchase agreement – non-trading	2,598	2,598	2,773	1,075
Trading liabilities	11	6	—	—
Derivatives	18,832	12,824	23,403	17,752
Other liabilities	7,549	2,563	5,839	3,451
Accruals and deferred income	145	140	137	101
Financial liabilities designated at fair value	–	–	—	—
Subordinated liabilities	1,860	1,860	1,860	1,860
Guarantees and commitments	**3,193**	**1,389**	5,153	3,769
Income Statement				
Interest income		65		83
Interest expense		66		89
Fee income		124		155
Fee expense		145		80
Gains less losses from financial investments		—		—
Other operating income		84		93
Dividend income		—		—
General and administrative expenses		448		384

34 Events after the balance sheet date

There was no material event subsequent to the reporting date that would require a correction or adjustment to the consolidated financial statements as at 31 December 2021.

New products and services are offered to customers of the HSBC Group in Continental Europe on a regular basis. Information is available on the Group's websites, in particular in the press releases posted at www.hsbc.fr.

Proposed Capital Increase

On 22 February 2022, the Board of Directors convened an Extra-Ordinary General Meeting on 11 March 2022 to propose a share capital increase of EUR 700 million.

There have been no other significant events between 31 December 2021 and the date of approval of these financial statements which would require an additional disclosure in the financial statements.

35 HSBC Continental Europe subsidiaries, joint ventures and associates

HSBC Continental Europe classifies investments in entities which it controls as subsidiaries. HSBC Continental Europe consolidation policy is described in Note 1.

Subsidiaries of HSBC Continental Europe

				HSBC Continental Europe interest (%)	
Consolidated companies	Country of incorporation or registration	Consolidation method*	Main line of business	**2021**	2020
Retail and Commercial Banking					
HSBC Factoring (France)	France	FC	Financial company	**100.0**	100.0
SAPC Ufipro Recouvrement	France	FC	Service company	**99.9**	99.9
Global Banking and Markets					
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0**	85.0
DEM 9	France	FC	Financial company	**100.0**	100.0
DEMPAR 1	France	FC	Financial company	**100.0**	100.0
Foncière Elysées	France	FC	Real estate company	**100.0**	100.0
HSBC Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Real Estate Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Services (France)	France	FC	Financial company	**100.0**	100.0
HSBC SFH (France)	France	FC	Financial company	**100.0**	100.0
Euro Secured Notes Issuer (ESNI)[4]	France	FC	Financial company	**16.7**	16.7
SAF Baiyun	France	FC	Financial company	**100.0**	100.0
SAF Guangzhou	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi ba[1]	France	FC	Financial company	**–**	100.0
SAF Zhu jiang shi er[1]	France	FC	Financial company	**–**	100.0
SAF Zhu jiang shi jiu[1]	France	FC	Financial company	**–**	100.0
SAF Zhu jiang shi liu[1]	France	FC	Financial company	**–**	100.0
SAF Zhu jiang shi qi[1]	France	FC	Financial company	**–**	100.0
SAF Zhu jiang shi wu[1]	France	FC	Financial company	**–**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Merger.*
2 *Deconsolidation.*
3 *New entries in perimeter.*
4 *HSBC Continental Europe silo, which is 100%-owned by HSBC Continental Europe and fully consolidated.*
5 *In the process of liquidation.*

Consolidated companies	Country of incorporation or registration	Consolidation method*	Main line of business	HSBC Continental Europe interest (%) 2021	2020
SFM	France	FC	Commercial company	**100.0**	100.0
Sopingest	France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes	France	FC	Financial company	**60.0**	60.0
Somers Dublin – DAC	Ireland	FC	Service company	**100.0**	100.0
Asset Management					
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0**	100.0
HCM Holdings Ltd[5]	United Kingdom	EM	Financial company	**51.0**	51.0
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0
Services Epargne Entreprise	France	EM	Service company	**14.2**	14.2
HSBC Global Asset Management (France)	France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG	Switzerland	EM	Asset management	**50.0**	50.0
HSBC REIM (France)	France	FC	Asset management	**100.0**	100.0
Insurance					
HSBC Assurances Vie (France)	France	FC	Insurance company	**100.0**	100.0
SCI HSBC Assurances Immo	France	FC	Real estate company	**100.0**	100.0
ERISA Actions Grandes Valeurs	France	FC	Financial company	**100.0**	100.0
OPCVM8 – Erisa Diversifié N2 FCP	France	FC	Financial company	**100.0**	100.0
OPCVM9 – Erisa Opportunités FCP	France	FC	Financial company	**100.0**	100.0
HSBC MIX DYNAMIQUE FCP3DEC	France	FC	Financial company	**57.6**	59.7
HSBC MUL.ASS.ST.FACT.S FCP3DEC	France	FC	Financial company	**100.0**	100.0
HSBC PTF WLD Select.4 A C.3DEC	France	FC	Financial company	**50.9**	55.7
HSBC SELECT DYNAMIC A FCP 2DEC	France	FC	Financial company	**79.2**	78.1
HSBC GIF EMERG.WEALTH A C.3DEC[2]	France	FC	Financial company	**–**	64.1
HSBC ACTIONS EUR.C FCP 3DEC[2]	France	FC	Financial company	**–**	57.3
HSBC SELECT EQUITY A FCP 4DEC	France	FC	Financial company	**80.4**	76.6
HSBC EURO PROTECT 80 PLUS PART C	France	FC	Financial company	**75.2**	73.0
HSBC PORT-WORLD SEL 5-AHEUR	France	FC	Financial company	**54.2**	56.0
HSBC GLOBAL INVESTMENT FUNDS GEM EQUITY	France	FC	Financial company	**70.6**	64.8
HSBC RESP INVESTMENT FUNDS SRI GLOBAL EQUITY	France	FC	Financial company	**71.9**	59.3
HSBC RESP INVE FD-SRI DYNAMIC PART AC	France	FC	Financial company	**71.2**	69.2
HSBC RESP INVES FUNDS-SRI BALANCED AC	France	FC	Financial company	**80.7**	97.3
HSBC GB Inv -Economic Scale Japan Eq[2]	France	FC	Financial company	**–**	64.7
HSBC GLB-US EQUITY IND-ACEUR	France	FC	Financial company	**91.6**	98.4
HSBC OBLIG INFLATION EURO AC[2]	France	FC	Financial company	**–**	50.8
HSBC EUROPE SMALL MID CAP[3]	France	FC	Financial company	**58.9**	–
HSBC GIF-EUROLND GR-A[3]	France	FC	Financial company	**57.7**	–
HSBC WORLD EQUITY PROTECT 80[3]	France	FC	Financial company	**97.2**	–
HSBC SELECT FLEXIBLE PART A[3]	France	FC	Financial company	**50.9**	–
HSBC SELECT BALANCED PART A[3]	France	FC	Financial company	**50.7**	–
HSBC GB JAPAN EQ IND[3]	France	FC	Financial company	**69.2**	–
Others					
Charterhouse Management Services Limited	United Kingdom	FC	Investment company	**100.0**	100.0
Charterhouse Administrators Ltd	United Kingdom	FC	Investment company	**100.0**	100.0
Keyser Ullmann Ltd	United Kingdom	FC	Investment company	**100.0**	100.0
Société Française et Suisse	France	FC	Investment company	**100.0**	100.0
Flandres Contentieux	France	FC	Service company	**100.0**	100.0
Valeurs Mobilières Elysées	France	FC	Investment company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Merger.*
2 *Deconsolidation.*
3 *New entries in perimeter.*
4 *HSBC Continental Europe silo, which is 100%-owned by HSBC Continental Europe and fully consolidated.*
5 *In the process of liquidation.*

Main changes in the scope of consolidation during 2021

New Entries in Perimeter

HSBC EUROPE SMALL MID CAP
HSBC GIF-EUROLND GR-A
HSBC WORLD EQUITY PROTECT 80
HSBC SELECT FLEXIBLE PART A
HSBC SELECT BALANCED PART A
HSBC GB JAPAN EQ IND

Removals

Deconsolidation

HSBC OBLIG INFLATION EURO AC
HSBC GIF EMERG.WEALTH A C.3DEC
HSBC ACTIONS EUR.C FCP 3DEC
HSBC GB Inv -Economic Scale Japan Eq

Merger

SAF Zhu Jiang shi ba[1]
SAF Zhu jiang shi er[1]
SAF Zhu Jiang shi jiu[1]
SAF Zhu jiang shi liu[1]
SAF Zhu jiang shi qi[1]
SAF Zhu jiang shi wu[1]

1 These entities have been merged within HSBC LEASING (FRANCE) in November, 2021.

Non-consolidated entities

			HSBC Continental Europe interest (%)	
Non Consolidated Companies	Country of incorporation or registration	Reason of non-consolidation	**2021**	2020
SNCB/M6 2007 A	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2007 B	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2008 A	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNC Les MERCURIALES	France	Not consolidated in accordance with IFRS 10	**–**	99.99
SNC MAKALA	France	Not consolidated in accordance with IFRS 10	**–**	99.99
SNC DORIQUE	France	Not consolidated in accordance with IFRS 10	**99.99**	99.99
GIE GNIFI	France	Not consolidated in accordance with IFRS 10	**–**	25.0
CCF Finance Moyen Orient SAL	Lebanon	In the course of liquidation since 2002	**99.9**	99.9
CCF Holding Liban SAL	Lebanon	In the course of liquidation since 2002	**75.0**	75.0

PricewaterhouseCoopers Audit	**BDO Paris**
63 rue de Villiers	43-47 avenue de la Grande Armée
92208 Neuilly-sur-Seine Cedex	75116 Paris

Statutory Auditors' report on the consolidated financial statements

(For the year ended 31 December 2021)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

HSBC Continental Europe

38, avenue Kléber

75116 Paris

To the shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of HSBC Continental Europe for the year ended 31 December 2021.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at 31 December 2021 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the 'Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements' section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code ('*Code de commerce*') and the French Code of Ethics ('*Code de déontologie*') for Statutory Auditors, for the period from 1 January 2021 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the matter set out in Note 1.1 to the consolidated financial statements, which outlines changes in accounting principles such as the adoption of the IFRIC decision concerning IAS 19, which is treated as a change of accounting method.

Justification of assessments – Key audit matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

Measurement of the present value of in-force insurance business ('PVIF')

Description of risk	How our audit addressed this risk
Present value of in-force insurance business ('PVIF') represents the present value of the profits expected to emerge from the book of in-force policies of HSBC Assurances Vie, a subsidiary of HSBC Continental Europe. PVIF is recorded under balance sheet assets in HSBC Continental Europe's consolidated financial statements. PVIF is measured using models that take account of thousands of possible outcomes to project the HSBC Assurances Vie insurance contract book over a defined time horizon based on the effective length of underlying policies. This estimate is based on economic assumptions such as market data (interest rates, equities, macro-economic scenarios, etc.), and non-economic assumptions including mortality, lapse rates and expense rates. These assumptions are determined based on observed historical mortality and lapse rates, and the investment strategies applied for HSBC Assurances Vie customers. PVIF may vary based on revisions to these assumptions as well as changes in regulations and accounting methods, or adjustments to the model. These revisions led the Group to recognise a pre-tax expense of EUR 187 million for the year ended 31 December 2021 (see Note 20 to the consolidated financial statements). Given the sensitivity of pre-tax profit to changes in PVIF, the complexity of the model and the underlying assumptions, we deemed the measurement of present value of in-force insurance business to be a key audit matter.	With the support of our risk modelling experts, we performed the following procedures: • checking the actuarial model used to calculate PVIF in order to assess its appropriateness, notably the overall consistency of any changes or of the lack of any changes in the model with the key assumptions used to determine PVIF. This mainly involved: – gaining an understanding of the model and assessing the consistency of the updated assumptions in relation to past observations and observable data, – analysing the modelling and the changes made to the modelling of economic data with regard to the characteristics of HSBC Assurances Vie investments, the asset allocation policy and market practices, and – analysing changes in PVIF in light of the assumptions used in the model inputs; • testing internal controls deemed to be key to the audit and used by management to: – validate the appropriateness of the data and assumptions used as inputs for the model; – validate the projections and their consistency with the calculated PVIF.

At 31 December 2021, PVIF amounted to EUR 677 million, versus EUR 490 million at 31 December 2020.
See Notes 1.2 and 20 to the consolidated financial statements.

Financial instruments measured at fair value and classified as level 3

Description of risk	How our audit addressed this risk
As part of its activities, HSBC Continental Europe holds financial instruments (assets and liabilities) which are recognised in the balance sheet at fair value, particularly complex derivative financial instruments and private equity funds. Fair value is determined using different approaches, depending on the type and complexity of the instrument. The offsetting entry for the remeasurement of derivative financial instruments at fair value at the reporting date is recognised in profit or loss. The measurement of derivatives may require the use of internally-developed models using unobservable data such as long-term interest rates or volatilities for certain currencies. The measurement of more complex instruments may require several unobservable inputs such as volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices. It also takes account of adjustments for counterparty and liquidity risk. These instruments are classified as level 3 in the fair value hierarchy as defined in IFRS 13. The private equity portfolio is also valued based on unobservable inputs combined with a highly volatile environment due to the Covid-19 crisis, making the determination of the fair value of these financial instruments even more uncertain. Given the multiple inputs subject to management's judgement, we deemed the measurement of these level 3 financial instruments to be a key audit matter for HSBC Continental Europe's consolidated financial statements.	We tested the effectiveness of the controls we deemed key to our audit, put in place by management to record, value and recognise these financial instruments, specifically those regarding: • the independent validation of valuation models by the Independent Model Review – Markets department; • the independent verification of prices and valuations by the Product Control department; • the determination of fair value adjustments ('FVA'); • the determination of fund net asset values. We also sought the support of our risk modelling experts to carry out, on the basis of samples, an independent valuation of level 3 instruments using their own models and market inputs in order to assess the valuations generated by the HSBC internal models. We examined the assumptions, methods and models used by the Bank to estimate the main valuation adjustments (counterparty and liquidity risk) in order to assess their relevance. For the valuation of the private equity portfolio, we also carried out substantive procedures to assess the reliability of fund net asset values.

At 31 December 2021, instruments classified as level 3 in the fair value hierarchy represented EUR 3,411 million recognised under assets and EUR 825 million recognised under liabilities.
See Notes 1.2 and 11 to the consolidated financial statements.

Application of IFRS 9 in the calculation of impairment of loans to HSBC Continental Europe business customers

Description of risk	How our audit addressed this risk
The determination of expected credit losses (ECLs) requires management's judgement and the corresponding estimates are subject to a high degree of uncertainty, which grew during the Covid-19 crisis. Management uses multiple assumptions to estimate ECLs. In the course of our audit, we focus on the following main assumptions: risk inputs, the determination of forward-looking economic scenarios and their probability, business customer risk ratings (CRRs) and the recoverability of the loans. These assumptions are used in complex, tailor-made models that are developed using risk inputs based on historical data which, in the current economic environment, generated an inappropriate level of estimated ECLs. With regard to the determination of forward-looking economic scenarios, the Covid-19 crisis triggered unprecedented economic conditions that vary depending on the country and business sector. The support programmes introduced by governments together with the action taken by regulators had an impact on economic factors such as GDP and the unemployment rate. These inputs therefore limited and changed the extent and duration of customer defaults. These factors increased the uncertainty surrounding the estimates used to determine the severity and probability of the impacts of the crisis on macroeconomic variables (MEV) through the different economic scenarios used in the ECL models. Lastly, the customer risk ratings (CRRs) used to determine impairment were adjusted based on quantitative data and qualitative criteria in order to reflect the material increase in credit risk due to the Covid-19 crisis. Accordingly, ECLs were significantly adjusted to take account of these uncertainties. The type and scope of these adjustments, which may or may not be based on models and are determined based on the judgement of the Credit Risk department, vary depending on the business portfolio. Given the Bank's outstanding loan balances, the uncertainty of the assumptions used and the higher degree of judgement exercised by management, within the context of the Covid-19 crisis, to estimate the amount of ECLs, we deemed this to be a key audit matter.	Management has put in place controls designed to ensure the reliability of the calculation of expected credit losses (ECLs). In this context, we tested the controls we deemed key to our audit, in order to assess the relevance of the impairment losses recorded, in particular: • the examination and comparative review of several economic scenarios and their probability by a group of experts and an internal governance committee; • the effectiveness of the credit committees set up to assess and approve the estimated impairment, particularly the judgement exercised by management to determine the adjustments to be applied; • the validation and monitoring of models; • the credit reviews used to determine customer risk ratings for business portfolios; • the entering of critical data in the source systems, as well as the flow and transformation of the data between the source systems and the engine for calculating impairment losses; • the calculation and approval of post-model adjustments and expected credit losses based on the judgement of the Credit Risk department. We called upon our experts to assess the reasonableness of the macro-economic variables forecasts, particularly regarding the estimated probability of various scenarios. They examined the sensitivity of expected credit losses to these assumptions. We also assessed the relevance of the model methodologies that had not changed during the year, notably taking into account Covid-19 and the need to use post-model adjustments. Where expected credit losses were adjusted, we assessed the impairment losses determined by management and the supporting analysis. In addition, we assessed the level of ECLs using a sample of business customer loans, and the relevance of management's judgement, particularly post-model adjustments, the level of customer risk ratings and expert valuations. We also assessed the information on credit risk provided in the consolidated financial statements for the year ended 31 December 2021.

Impairment of loans to Bank customers stood at EUR 857 million at 31 December 2021.
See Note 1.2 to the consolidated financial statements and page 115 of the management report.

Proposed sale of the French retail banking business

Description of risk	How our audit addressed this risk
In the context of the strategic review, on 18 June 2021, HSBC Continental Europe ('HBCE') signed a memorandum of understanding with Promontoria MMB SAS ('My Money Group' or 'MMG') and its subsidiary Banque des Caraïbes SA, relating to the disposal of HSBC Continental Europe's retail banking business in France. At 25 November 2021, HSBC Continental Europe signed the framework agreement with MMG. The sale, which is subject to regulatory approvals and other conditions, covers HSBC Continental Europe's retail banking business in France, the Crédit Commercial de France ('CCF') brand, all of the shares held by HSBC Continental Europe in HSBC SFH (France) and HSBC Continental Europe's shareholding in Crédit Logement representing 3 per cent of Crédit Logement's capital. It is estimated that the pre-tax loss, including associated transaction costs, resulting from the transfer would be approximately EUR 2 billion for HSBC Continental Europe. In the IFRS financial statements at 31 December 2021, neither the estimated loss nor the reclassification of the transferred assets and liabilities as assets and liabilities held for sale have been recognised. Given the materiality of the amounts transferred, the duration of the transaction, the choice of accounting treatment and the resulting tax implications, we deemed the presentation of this information in the financial statements to be a key audit matter.	We assessed the appropriateness of the accounting treatment applied by management, particularly with regard to the provisional timetable, the conditions of the sale and the pending regulatory approvals. We also assessed the appropriateness of the disclosures relating to this transaction in the notes to the consolidated financial statements, and in particular Note 1.3 'Significant events during the year' describing the proposed sale of the French retail banking business.

See Note 1.3 to the consolidated financial statements.

Recognising deferred tax assets

Description of risk	How our audit addressed this risk
The recognition of deferred tax assets is based on an assessment of future taxable profits that can be used to absorb tax loss carryforwards. At 31 December 2021, EUR 661 million of deferred tax assets were recognised, of which EUR 311 million relate to deductible temporary differences and EUR 350 million (out of a potential total amount of EUR 591 million) relate to the partial recognition of tax loss carryforwards. Management has performed an analysis of the recoverability of deferred tax assets in order to estimate the probability of future taxable profits, taking into account in particular the impact of the effects of the sale of the retail banking business and other non-recurring items on the tax results of the tax group. Due to the significance of the deferred tax assets recorded in HSBC Continental Europe's financial statements and the significant judgements and assumptions made by management in determining the amount and probability of future taxable profits, in a context of recent losses, we deemed the recognition of deferred tax assets to be a key audit matter. Management's assessment takes into account the impact of the sale of the French retail banking business and other one-off restructuring costs, which have impacted profitability in the last two years and which were also considered on future taxable profits in a number of scenarios.	We tested the design and operating efficiency of controls over the recognition of deferred tax assets. We assessed the probability of future taxable profits being generated in the light of management's strategy and business plan. We tested the key data used in the deferred tax accounting model, including the cash flow forecasts in the plans approved by the Board of Directors. We assessed the appropriateness of the methodology and underlying assumptions determined by management to assess the recoverability of deferred tax assets. Lastly, we assessed the appropriateness of the disclosures provided in the notes to the consolidated financial statements, in particular Note 1.2.i ('Significant accounting policies'), and Note 7 ('Tax').

EUR 661 million of deferred tax assets have been recognised at 31 December 2021.
See Note 7 to the consolidated financial statements.

Specific verifications

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the Group management report includes the consolidated non-financial information statement required under article L.225-102-1 of the French Commercial Code. However, in accordance with article L.823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the financial statements to be included in the annual financial report

In accordance with professional standards applicable to the Statutory Auditors' procedures for annual and consolidated financial statements presented according to the European single electronic reporting format, we have verified that the presentation of the financial statements to be included in the annual financial report referred to in paragraph I of article L.451-1-2 of the French Monetary and Financial Code *(Code monétaire et financier)* and prepared under the Chief Executive Officer's responsibility, complies with this format, as defined by European Delegated Regulation No. 2019/815 of 17 December 2018. As it relates to the consolidated financial statements, our work included verifying that the markups in the financial statements comply with the format defined by the aforementioned Regulation.

On the basis of our work, we conclude that the presentation of the consolidated financial statements to be included in the annual financial report complies, in all material respects, with the European single electronic reporting format.

It is not our responsibility to ensure that the consolidated financial statements to be included by the Company in the annual financial report filed with the AMF correspond to those on which we carried out our work.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC Continental Europe by the Annual General Meetings held on 23 April 2015 for PricewaterhouseCoopers Audit and on 10 May 2007 for BDO Paris.

At 31 December 2021, PricewaterhouseCoopers Audit and BDO Paris were in the seventh and fifteenth consecutive year of their engagement, respectively.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit.

They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris, 23 February 2022

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO Paris**
Agnès Hussherr	Arnaud Naudan
Partner	Partner

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Income statement

(in millions of euros)	Notes	31 Dec 2021	31 Dec 2020
Income/(Expenses)			
Interest and similar income	23	**1,516**	1,935
Interest and similar expenses[1]	23	**(984)**	(1,400)
Finance leases income		**191**	176
Finance leases expenses		**(179)**	(194)
Income from equities and other variable income securities	24	**43**	26
Commissions received	25	**1,123**	993
Commissions paid	25	**(296)**	(205)
Gains and losses on trading securities	26	**130**	188
Gains or losses on available-for-sale securities	27	**69**	96
Other banking operating income		**157**	139
Other banking operating expenses		**(98)**	(18)
Net banking operating income		**1,672**	1,736
General operating expenses	28	**(1,759)**	(2,007)
Depreciation, amortisation and impairment of fixed assets		**(35)**	(486)
Gross operating income		**(122)**	(757)
Loan impairment charges	8	**(35)**	(211)
Net operating income		**(157)**	(968)
Gains or losses on disposals of long-term investments	29	**(4)**	73
Profit/(loss) before tax		**(161)**	(895)
Exceptional items	30	**(1,916)**	100
Income tax and deferred tax	31	**488**	(111)
Gains and losses from regulated provisions		**—**	—
Net profit/(loss) for the period		**(1,589)**	(906)

1 *Excludes the impact of the correction of an error. Refer to Note 30.*

Balance sheet

Assets

(in millions of euros)	Notes	31 Dec 2021	31 Dec 2020
Cash and amounts due from central banks and post office banks[1]		**38,413**	30,270
Treasury bills and money-market instruments[3]	4	**14,659**	20,700
Loans and advances to banks[1 4]	2	**19,701**	16,838
Loans and advances to customers[5]	3	**64,365**	64,100
Bonds and other fixed income securities[3]	4	**4,506**	4,420
Equities and other variable income securities	4	**1,036**	158
Investments in subsidiaries and equity securities held for long term	5	**66**	85
Interests in affiliated parties	5	**1,185**	1,359
Finance leases	7	**309**	448
Intangible fixed assets	6	**40**	42
Tangible fixed assets	7	**63**	79
Other assets[6]	9	**18,442**	33,261
Prepayments and accrued income[6]	10	**35,226**	54,134
Total assets		**198,011**	225,894
Off-balance sheet items			
Financing commitments given	21	**51,083**	47,223
Guarantees and endorsements given	21	**20,163**	9,695
Securities commitments (other commitments given)		**38,511**	47,328

Liabilities

(in millions of euros)	Notes	31 Dec 2021	31 Dec 2020
Central bank and post office banks		**22**	13
Deposit due to credit institutions[5]	11	**27,557**	28,896
Customer accounts[4]	12	**72,449**	63,319
Debt securities in issue[7]	13	**18,150**	17,319
Other liabilities[3 6]	15	**39,264**	53,455
Accruals and deferred income[6]	16	**31,500**	53,704
Provisions for liabilities and charges	14	**2,020**	593
Subordinated liabilities	17	**2,629**	2,629
Share capital	18	**491**	491
Additional paid-in capital	19	**2,155**	2,155
Equity	19	**1,041**	1,041
Special tax-allowable reserves	19	**—**	—
Retained earnings[2]	19	**2,322**	3,185
Net profit (loss) for the period	19	**(1,589)**	(906)
Interim dividend	19	**—**	—
Total liabilities		**198,011**	225,894
Off-balance sheet items			
Financing commitments received	21	**2,780**	3,324
Guarantees and endorsements received	21	**27,095**	17,931
Securities commitments (other commitments received)		**35,152**	47,908

1 Includes a reclassification in 2020 balances of EUR 25,300 million from 'Loans and advances to banks' to 'Cash and amounts due from central banks and post office banks'.
2 Before proposed allocation submitted to Annual General Meeting's approval.
3 After the application of offsetting for assets and liabilities arising from securities borrowing transactions. Refer to Note 1, Note 4 and Note 15.
4 After the application of offsetting of repurchase and reverse repurchase agreements, and regulated savings accounts against balances centralized at the Caisse des Dépôts et Consignation. Refer to Note 1, Note 2 and Note 12.
5 After the application of offsetting of repurchase and reverse repurchase agreements. Refer to Note 1, Note 3 and Note 11.
6 After the application of offsetting for derivatives and associated collateral. Refer to Note 1, Note 9, Note 10, Note 15 and Note 16.
7 Includes the impact of the correction of an error. Refer to Note 30.

Statement of reported net profit and movements in shareholders' funds

(in millions of euros)	31 Dec 2021	31 Dec 2020
Net profit/(loss) for the period		
Total	**(1,589)**	(906)
– per share (in euros)[1]	**(16)**	(9)
Movements in shareholders' funds (excluding the net profit of 2021) (after allocation of 2020 net profit)		
– change in revaluation difference	**—**	—
– transfer to reserves and change in retained earnings	**(906)**	(145)
– allocation of net profit for the previous year	**(906)**	(145)
– appropriation of net profit	**—**	—
– restatement of opening retained earnings[2]	**43**	
– change in revaluation reserve and special tax-allowable reserves	**—**	—
Change in shareholders' funds	**(863)**	(145)
– per share (in euros)[1]	**(9)**	(1)
Proposed dividend		—
– total	**—**	—
– per share (in euros)[1]	**—**	—

1 Number of shares outstanding at year end: 98,231,196 in 2021 and 98,231,196 in 2020.

2 Include retrospective restatement of the opening balance of retained earnings (EUR 43 million) following the adoption of changes in methodology for the recognition of pension liabilities (EUR 35 million attributable to a change in accrual methodology, EUR 8 million attributable to the change in starting point for the accrual as a result of an IFRIC final agenda decision in relation to the period of service over which employee benefits are attributed). Refer to Note 1.

2021 Highlights

Business review

Net banking operating income was EUR 1,672 million, down EUR 64 million compared to 2020, owing the persistence of a low interest rate environment.

General operating expenses were to EUR 1,759 million, down EUR 248 million compared to the previous year. This decrease was driven by the non recurrence in 2021 of the restructuring costs, saves related to staff exits and lower administrative expenses, despite the increased contribution to the Single Resolution Fund from EUR 106 million to EUR 144 million this year.

Depreciation, amortisation and impairment of tangible and intangible assets was EUR 35 million, down EUR 451 million compared to 2020, reflecting the non-recurrence of prior year exceptional impairment of tangible and intangible assets.

Loan impairment charges were EUR 35 million compared to EUR 211 million in 2020. This decrease reflected the improvement of the current and forward-looking economic conditions as European economies have progressively re-opened.

Losses on disposals of long-term investments were EUR 4 million compared to a gain of EUR 73 million in 2020, primarily due to the sale of Visa shares.

Exceptional losses were EUR 1,916 million compared to a gain of EUR 100 million in 2020. This increase is primarily due to the recognition of the disposal loss, associated transaction costs and impairments following the signing of the Framework Agreement for the planned sale of the French retail banking business.

Net loss for the period was EUR 1,589 million compared to a net loss of EUR 906 million in 2020.

At 31 December 2021, the **total balance sheet** of HSBC Continental Europe amounted to EUR 198 billion compared to EUR 226 billion at 31 December 2020.

Sale of the retail banking business in France

Further to the strategic review, HSBC Continental Europe signed on 25 November 2021 a Framework Agreement with Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA and My Money Bank, regarding the sale of HSBC Continental Europe's retail banking business in France. This followed the signing of a Memorandum of Understanding on 18 June 2021 and the conclusion of the information and consultation processes of the parties with their respective works councils.

In parallel, several other agreements have been entered into aiming to ensure continuity of service for HSBC Continental Europe's retail banking customers who hold asset management products with HSBC Global Asset Management (France) and HSBC REIM (France), and protection and/or life-wrapped insurance products with HSBC Assurances Vie (France).

The sale, which is subject to regulatory approvals and the satisfaction of other relevant conditions, includes: HSBC Continental Europe's French retail banking business; the Crédit Commercial de France ('CCF') brand; and HSBC Continental Europe's 100 per cent ownership interest in HSBC SFH (France) and its 3 per cent ownership interest in *Crédit Logement*. The sale generated a pre-tax loss for HSBC Continental Europe of EUR 1.8 billion, of which 1.5 billion provision on loss-making contract, EUR 0.2 billion impairment of tangible assets and costs of investments and EUR 0.1 billion associated disposal costs, classified as exceptional items. Following the signature of the framework agreement for the planned sale of the French retail banking business, a provision for loss was recognised and considered largely deductible, resulting in a tax deduction in the French tax return for a tax value of EUR 382 million.

As at 31 December 2021, the value of the total assets of the business to be sold was EUR 24.1 billion, including EUR 21.9 billion of customer loan balances and the value of customer accounts was EUR 19.9 billion. See page 4 'HSBC strategy implemented in Continental Europe'.

Funding through Targeted Long-Term Refinancing Operation ('TLTROs')

In September 2021, HSBC Continental Europe repaid EUR 0.5 billion in TLTRO III funding which now amounts to EUR 11.2 billion as of December 2021. TLTRO III funding is issued below market rates, as they are issued below the Main Refinancing Operations ('MRO') rate and at or below the deposit facility rate. TLTRO III borrowing rates may be equal to the market rate, MRO for the period before 24 June 2020 and after 23 June 2022 or MRO minus 50 bps over the period 24 June 2020 to 23 June 2022. TLTRO III Borrowing rates may be equal to MRO minus 50 bps or at the deposit facility (FD) rate minus 50 bps over the period 24 June 2021 to 23 June 2022, capped at -1 per cent, and equal to the deposit facility rate during the remaining period of the TLTRO III, if the entity's benchmark lending is maintained at a prescribed level over specific periods (the lending target).

As at 31 December 2021, HSBC Continental Europe judged that it had complied with the conditions attached to the second TLTRO III lending benchmark and that the below-market rate foreseen (FD minus 50bps) in the second twelve month period will be received.

The benefit of the below market rate of interest has been treated at inception and subsequently as a government grant in accordance with IAS20, 'Accounting for Government Grants and disclosure of Government Assistance'.

As a result, EUR 115 million have been recognised in Interest income in 2021 financial statements of which EUR 28 million in respect of meeting the second lending benchmark and EUR 28 million are expected to be recognised in 2022 as a compensation to the support provided to the real economy during the period. Refer to Note 1.1 (a) and 1.2 (o) for related accounting policies and judgements of Consolidated financial statements.

Repayments and new issuances

In June 2021, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturities of seven and eight years for a total notional amount of EUR 800 million subscribed by HSBC Bank plc, recognised as debt securities in issue.

In December 2021, in order to meet TLAC requirements and in line with AOP 2021, it is proposed that HSBC Continental Europe issue EUR 600 million Senior Non Preferred ('SNP') bonds in Q4 2021.

1 Principal accounting policies

HSBC Holding plc whose head office is located in London, is responsible for consolidated financial statements. HSBC Continental Europe is part of it, and is responsible for consolidated financial statements in the France perimeter. The head office of HSBC Continental Europe is located in Paris. These consolidated financial statements are available on the website 'www.hsbc.fr' or 'www.hsbc.com'.

The financial statements of HSBC Continental Europe are prepared in accordance with Regulations 2014-03 and 2014-07.

Regulations and accounting policies adopted in 2021

In November 2021, the National Standard Setter ('ANC') has amended the 'recommandation 2013-02' of 7 November 2013 to clarify the period of service over which employee benefits are attributed. In light with this amendment, HSBC Continental Europe reassessed its retirement indemnity provisions and considered that the liability should be recognized over the period prior to the retirement date. This led to a reduction in pension liabilities of EUR 43 million, accounted for retrospectively as a restatement of the opening balance of retained earnings. Refer to Note 20 Pensions, post-employment benefits.

In 2020, HSBC Continental Europe adopted a voluntary change in accounting policy enabling offsetting to be applied where it has been established that reciprocal obligations are settled on a net basis with the same counterparty, currency and maturity date, and where agreements are in place for which the right of offset can be exercised. In 2021, the scope was extended to trading derivatives exposures and related cash collateral where it was established that the conditions for offsetting were met.

(a) Initial recognition and subsequent measurement of tangible and intangible assets

HSBC Continental Europe applies the component approach in the recording and amortising of fixed assets.

HSBC Continental Europe complies with ANC Regulation 2014-03 and in particular with articles 214-1 to 214-27 for initial recognition, amortisation and impairment of tangible assets.

Investment property and operational building

For operating and investment fixed assets, HSBC Continental Europe adopted the components approach with the following minimum cap on the useful lives and methods of the corresponding components:

Components	Periods and depreciation and amortisation methods
Infrastructure	
Building	25 and 50 years on a straight-line basis
Civil engineering works	25 years on a straight-line basis
Technical installations	
Air conditioning Ventilation Heating	10 years on a straight-line basis
Electrical installations	10 years on a straight-line basis
Telephone and electrical fittings	10 years on a straight-line basis
Security fittings	10 years on a straight-line basis
Fittings	
Improvements and internal fittings	10 years on a straight-line basis

Goodwill

Acquired goodwill is subject to impairment on the basis of objective indicators.

Goodwill on merger

The goodwill is affected under the terms provided in accordance with the article 745-6 of regulation 2014-03 to the different concerned assets, and recorded in the accounts under the rules set down in the article 745-7.

The goodwill is amortised or reported in the income statement, under the same rules and conditions as underlying assets to which it is assigned. See Note 6.

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned:

Components	Periods and depreciation and amortisation methods
Office equipment	5 years, reducing or straight-line basis
Furniture	5 to 10 years, reducing or straight-line basis
IT hardware	3 to 7 years, reducing or straight-line basis
Software	3, 5 or 10 years, straight-line basis

Assets held under finance lease

The assets held under the leasing activity are recognised in accordance with the accounting rules defined by the notice n° 2006-C of 4 October 2016 issued by the Emergencies Committee, linked to the interpretation of the advisory opinion n° 2004-15 du 23 June 2004 of CNC, relating to the definition, recognition and valuation of assets excluding from individual company accounts lease contracts according to IAS 17 within the scope of articles 211-1 to 224-4 from the regulation n° 2014 of ANC.

Assets held under leasing activity are amortised by using the straight-line method, over the actual duration of use but not exceeding the duration of the rental contract.

The amortisation periods are as follows:

- furniture and office equipment: five years;
- computer equipment: three years;
- tools and equipment: five to seven years.

Depreciation and amortisation of fixed assets leased under finance leases are recognised as an expense on finance lease.

In the financial accounting, the outstanding financial contracts is substituted to the net leased fixed-assets. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the gross unearned finance income.

(b) Securities portfolio

Securities transactions are recognised in accordance with the principles set out in articles 2311-1 to 2391-1 of 2014-07 ANC regulation.

Securities are categorised as follows:

- trading account securities;
- available-for-sale securities;
- held-to-maturity securities;
- portfolio activity securities;
- other long-term securities;
- interests in subsidiaries and associates.

Securities are recognised on the balance sheet at the date of settlement.

Trading securities

Trading securities are negotiable securities traded on an active market, originally acquired or sold with the intention of reselling or buying back within short timescale and are held for market activities or form part of a global portfolio trading management.

On the date of acquisition, Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at the market price, and changes in value are recognised through profit or loss.

Available for sale securities

Other investment securities are those securities not treated as trading account securities, neither portfolio activity securities nor as securities covered by articles 2351-1, 2351-2 and 2351-3 of 2014-07 ANC regulation. These are acquired for the purposes of income and liable to be resold within a relatively short timescale.

On the date of acquisition, they are recorded at cost price (excluding accrued income for fixed-income securities).

At the closing of the period, available-for-sale securities are valued individually at the lowest of their cost price or market value.

Unrealised losses give rise to the recognition of an impairment.

Investment securities

Fixed-income securities that were acquired for holding long term, and in principle till maturity, are categorised as held-to-maturity securities.

Portfolio activity securities are recognised on the date of acquisition at their purchase price.

Held-to-maturity securities are valued at historical cost.

Where the acquisition price of fixed income securities is greater than their redemption value, the difference is amortised over the residual life of the securities.

At the closing date, unrealised losses arising from the difference between the book value, adjusted for amortisation and reversal of differences described above, and the price of fixed income securities are not subject to the impairment, except if there is a strong probability that the institution will not keep the securities until the maturity because a number of new circumstances and without depreciation prejudice to establish in application of the Title 2 terms from the book II of current regulation, dealing with credit risk on securities, if there is any existence of the issuer's defaulted risk.

Unrealised gains are not recognised.

Portfolio activity securities

This category covers investments made under normal arrangements with the sole objective of making medium-term capital gains without intention of investing in the long-term in the business of the issuing entity, nor of taking an active part in the management of its operations. This is particularly the case for securities held in venture capital businesses.

Portfolio activity securities are recognised individually at the lower of their historical cost or value-in-use, determined with regard to the issuer's general prospects and the anticipated holding period.

Other long-term securities

'Other long-term securities' are equity shares and similar securities that HSBC Continental Europe intends to hold long term to derive a satisfactory return within an undefined period of time, without however taking any part in managing the businesses in which the shares are held, but with the intention of fostering long-term business relationships by creating a special link with the issuing companies. These securities are recorded individually at the lowest of their acquisition value or their value-in-use.

The methods for assessing value-in-use are explained in next section.

Interests in subsidiaries and associates

The heading 'Interests in subsidiaries and associates' regroups securities held long-term (equity interests) and holdings in subsidiaries (shares in group companies).

Interests in subsidiaries and associates are valued individually at the lowest of their cost and their value-in-use, as determined below.The assessment of the value-in-use of portfolio activity securities, other long term securities and interests in subsidiaries and associates is carried out using a comprehensive approach based on the combination of a number of criteria:

- economic and financial assessment of the company based mainly on the value of its revalued net assets;
- market appraisal based on research by financial analysts;
- in the evolution of stock market prices for listed companies and for interests in subsidiaries and associates consideration of the specific relationships that may exist between HSBC Continental Europe and each of the companies involved.

Recognition of gains and losses

Gains or losses on trading securities are recorded under the heading 'Dealing profits'.

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading 'Gains or losses on available-for-sale securities'.

Concerning the other securities, gains or losses on sale and impairment charges are recognised under the heading 'Gains or losses on disposals of long-term investments' in the income statement.

Sale and repurchase agreements

Stock lending or temporary acquisition, governed for legal purposes by law no. 93-1444 of 31 December 1993, amended by law no. 2003-1311 of 30 December 2003, referred to as stock repurchase agreements, have no impact on the composition and valuation of the securities portfolio. For accounting purposes, in accordance with article 2411-1 to 2412-4 of 2014-07 ANC regulation, they are considered as financing transactions, cash movement balanced entries are recognised either as a loan or a deposit. Related income and expenses are recognised as interest.

Repurchase and reverse repurchase agreements

Repurchase transactions that do not fall within the scope of law no. 93-1444 are categorised under this heading in the balance sheet. Their treatment for accounting purposes is similar to that described above for securities under sale and repurchase agreements.

A similar treatment is applied to:

– 'Buy and sell back' and 'Sell and buy back' transactions.

– Loans/borrowing of securities guaranteed by cash deposits.

In accordance with the voluntary change in accounting policy adopted in 2020, repurchase and reverse repurchase agreements are presented on a net basis.

Securities lending and borrowing

Securities lending and borrowing transactions are recognised in accordance with the principles set out in the article 2361-2 of 2014-07 ANC regulation.

In accordance with the provisions of Regulation 2020-10, securities borrowed are presented net of the corresponding liabilities.

(c) Loans and advances

Loans assessed individually

Non-performing and impaired loans

Non-performing loans and impaired loans are recorded in accordance with the article 2222-1 of 2014-07 ANC regulation.

Non-performing loans include all types of receivables, including secured receivables (for which the bank held a collateral), for which there is a risk that the bank will not recover in full or in part the contractual cash flows.

Loans and receivables are classified according to HSBC Continental Europe's internal loan rating system. Performing loans have a rating of between 1 and 8, non-performing loans have a rating of 9 and impaired loans, including doubtful loans not yet written off, have a rating of 10.

The following are therefore classified as non-performing loans:

- receivables overdue for more than three months for all types of loans and equipment leases, more than six months for property loans or leases and more than nine months for loans to local government bodies;
- receivables having risk criteria;
- receivables deriving from debt restructuring for which the debtor is again in default.

HSBC Continental Europe applies the provisions of articles 2221-2 of 2014-07 ANC regulation on identifying overdrafts at risk of default. For overdrafts, the overdue period starts when:

- the debtor exceeds an authorised limit that has been notified to him by HSBC Continental Europe; or
- the debtor is notified that the amount outstanding exceeds a limit set up by HSBC Continental Europe under its internal control system; or
- the debtor withdraws amounts without overdraft authorisation.

The downgrade to non-performing loans immediately leads to all amounts outstanding and commitments for that debtor that are in the same category, according to contagion principle and, if applicable, the downgrade of counterparties belonging to the same group to non-performing debtors, on a case-by-case assessment.

In application of the article 2221-8, 2231-3 of 2014-07 ANC regulation on accounting treatment at credit risk, HSBC Continental Europe has introduced a specific system for dealing with restructured debt and impaired loan.

In application of the articles 2221-8 of 2014-07 ANC regulation, impaired loans are those for which the prospect of recovery is very remote and for which a write-off is being considered. These include receivables which are long overdue or for which the contract has been terminated in case of leasing, and also receivables that have been categorised as non-performing for more than one year, unless final write-off is not being considered because of information on the prospects for recovery available at that stage. Interests on impaired loans are not recognised through profit or loss until the date of actual payment.

Reclassification into performing loans

In application of the article 2221-5 of the 2014-07 ANC regulation, a loan that has been classified as non-performing may be reclassified as performing when the original scheduled payments have been resumed without further incident.

In the case of restructured loans, the classification of doubtful exposure can be omitted, if the exposure complies firstly with the previous condition, and, on the other hand, the counterparty risk is lifted.

Risk mitigation instruments

The bank uses the customary risk mitigation instruments including guarantees and collateral (which is re-measured at least annually depending on its nature) and, to a minor extent, the purchase of credit default swaps ('CDS'). In this latter case, the risk mitigation impact is only recognised if the CDS meets the relevant regulatory conditions for recognition (term, currency, etc.).

Recognition of gains and losses

Charges for impairment against non-performing and impaired loans, included in the calculation of the banking result, are determined annually on the basis of the non recovery risk assessment by analysing each loan individually. In application of the article 2231-1 of the 2014-07 ANC regulation, impairment of non-performing and impaired loans has been calculated on the basis of the difference between the net present value of expected future recoveries and the carrying amount of the loan. Impairment may not be less than the amount of unpaid, recognised interest on the loan.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on amortised receivables are recognised in the 'Loan impairment charges' line.

Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis. Impairment is assessed individually.

Discount on restructured debt

In application of articles 2221-5 and 2231-3 of the 2014-07 ANC regulation, HSBC Continental Europe applies a specific system for dealing with restructured debt.

On restructuring, any waived principal and interest, accrued or due, is written off.

Moreover, at the time of restructuring, a discount is provided for on the restructured debt for the difference between the present value of initially anticipated contractual cash flows and the present value of future cash flows of principal and interest arising from the restructuring plan. The discount rate used is the original effective interest rate for fixed interest loans, or the most recent effective rate before the restructuring calculated in accordance with contractual terms for floating-rate loans.

This discount is recognised in the net cost of risk on restructuring and is then written back through net interest income over the remaining period.

Application of the effective interest rate

All liabilities are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

(d) Due to credit institutions and customer accounts

All liabilities towards banks and customers are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

(e) Debt securities in issue

Debt securities are classified according to their nature: deposit certificates, bonds and similar securities, except subordinated securities, which are recorded under subordinated debt.

Accrued unpaid interest on these securities is recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

Premiums or discounts related to bonds in issue are amortised on an actuarial basis over the life of the bond. Related fees are recognised over the life of the bond on a straight-line basis.

(f) Provisions

In accordance with the article 3222 of 2014-03 ANC regulation, provisions are registered where it is probable that an outflow of resources, without an at least equivalent inflow being expected from the beneficiary (whether known or not), will be required to extinguish a legal or implicit obligation arising from past events and where the amount of the obligation can be reliably estimated.

Retirement and other benefit liabilities

HSBC Continental Europe has opted to adopt ANC recommendation 2013-02 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC Continental Europe provides some of its employees post-employment benefits such as pension plans and end of service benefits.

The costs recognised for funding these defined-benefit plans are determined using the projected unit credit method, with annual actuarial valuations being performed on each plan.

Actuarial gains or losses are recognised immediately through profit or loss.

The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are recognised as operating expenses.

The net defined-benefit liability recognised in the balance sheet represents the present value of the defined-benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of the scheme's assets. Any resulting asset from this is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined-contribution plans and state-managed retirement benefit plans, where HSBC Continental Europe's obligations under the plans are equivalent to a defined-contribution plan, are charged as an expense as they fall due.

Provisions for French PEL and CEL home ownership plans and accounts

Home ownership accounts ('CEL') and home ownership plans ('PEL') are special financial instruments introduced by law no. 65-554 of 10 July 1965. They combine a savings phase and a lending phase which are inextricably linked, the lending phase being contingent to the savings phase.

In accordance with articles 2621-1 to 2624-2 of 2014-07 ANC regulation on the accounting treatment of CEL and PEL home ownership plans and accounts with banks and institutions authorised to receive home ownership funds and to grant home ownership loans, HSBC Continental Europe has provisioned against the adverse consequences of PEL/CEL commitments in its individual company accounts.

PEL commitments are measured by series, without any offset between series. CEL commitments are considered as one single series, distinct from the PEL series.

Provisions for the adverse consequences of these commitments are calculated using a model which takes into account:

- an estimate of future customer savings and credit behaviour, based on historical data;
- the value of various market parameters, particularly interest rates and volatility, determined from data available at the date of assessment.

Provision for share-based payments

HSBC Group share plan

Share-based payments are payments based on shares issued by HSBC Holdings Plc.

HSBC Continental Europe employees have the following advantages:

- From 2006, HSBC Holding Plc implemented share plans on HSBC Holding Plc shares.
- Employees can subscribe to HSBC Holdings Plc shares within the employee share ownership plan.

Shares plan

HSBC Continental Europe grants bonus share plans to these employees for services rendered.

The expense is recognised in the income statement on the period between the granted date and the acquisition date.

The cancellation of expense may result due to the inability to meet acquisition conditions during the period of acquisition.

The amount recorded in the income statement corresponds to the shares finally acquired by the employees.

(g) Foreign exchange position

Foreign currency exchange positions (asset and/or liabilities) are remeasured at the end of period prevailing rate, with the corresponding gains or losses recognised in the bank operating income or expense.

(h) Forward foreign exchange contracts

Unsettled Forward exchange contracts at the closing of the period hedged by a corresponding spot transactions are valued at the period end spot rate. Differences between spot and forward rates are recorded on a time-apportioned basis in the income statement. Outright forward exchange contracts and those hedged by forward instruments are restated at the rate for the remaining period.

(i) Financial derivatives

The HSBC Continental Europe group operates on all financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

Interest rate and currency options

Options are contracts reached between two parties by which one, the buyer, is granted the right to buy or to sell an actual asset or another financial instrument called an 'underlying asset' at the expiry of a certain time period, at a price agreed at the time the contract was concluded.

Option contracts result in a premium being paid by the buyer to the seller. HSBC Continental Europe has interest rate and currency options.

The basic accounting treatment principles for these various products are identical.

On closing out the contract, the notional amount of the 'underlying asset', which is the subject of the option, is recorded as an off-balance sheet item.

For income and expenses, a distinction is made between contracts for hedging, contracts entered into for market operations or for arbitration purposes:

- the income and expenditure on hedging operations is reported symmetrically to the income and expenditure of the item being hedged;
- The consideration received or paid on termination/assignement of an interest rate/foreign exchange risk derivative is accounted immediately in profit or loss. However, when a derivative originally met the defined conditions mentioned in points b) and c) of the article 2522-1 and that derivative is terminated or assigned and potentially replaced by another contract or an equivalent instrument, the consideration received or paid can be spread out in profit and loss prorata temporis;
- for market transactions, the positions are revalued at each period end. For transactions quoted on an organised or similar market within the meaning of Articles 2511-1 to 2516-1 of Book II – Title 5 – Section 1 relating to the recognition of interest rate futures, Regulation No. 2014 -07 of the ANC, changes in the value of positions are recognised through profit or loss, either by means of margin calls, or directly by means of a mathematical calculation where the options are not quoted.

Interest-rate futures (tradable futures)

The accounting treatment is identical to that set out above for options.

Currency swaps and/or interest rates (swaps, FRAs)

Currency and/or interest rate swaps are recognised in accordance with the articles 2521-1 and 2529-1 of the 2014-07 ANC regulation.

The contracts are recorded separately depending whether their purpose is to:

- hold stand-alone open positions to take advantage of any beneficial changes in interest rates;
- hedge, demonstrably from the outset, in accordance with the above-mentioned article 4 of CRBF regulation 88-02 as amended, interest-rate risk affecting an item or a group of similar items or credit risk in the case of Credit Default Swaps ('CDS');
- hedge and manage the entity's overall interest rate risk on assets, liabilities and off-balance sheet items;
- provide for specialist investment management of trading portfolios (trading business).

On the accounting side, methodology varies depending on whether the transactions are for hedging or trading business purposes.

The results of the hedging of assets or liabilities are recorded pro rata *temporis*. This is particularly the case for swaps traded as part of the asset/liability management of overall interest rate risk.

Income on positions managed as part of a trading portfolio of swaps is recognised at market value after a reduction to reflect counterparty risk and future management expense.

The notionals are recorded as off-balance-sheet items.

Offsetting rules

Offsetting rules are applied where it is established that reciprocal obligations are settled on a net basis with the same counterparty, currency and maturity date, and where agreements are in place for which the right of offset can be exercised. When the conditions for offsetting are met, the offsetting rules are applied to both derivatives exposures and related cash collateral.

Counterparty risk on derivatives

The fair value of contracts has to take into account counterparty risk linked to contracts.

The adjustment to value for counterparty risk is at least equal to the cost in equity determined under the terms of articles 2525-3 of 2014-07 ANC regulation.

(j) Exceptional items

This line only includes profit and losses before tax which are generated or occur exceptionally and do not relate to the banking current activity and where relevant, the correction of material errors identified.

(k) Deferred taxation

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

(l) Segment reporting

This information is not available on the parent company accounts but details are given on a consolidated basis page 13 and following of the management report.

2 Loans and advances to banks

Breakdown of outstanding loans by remaining contractual maturity

	31 Dec 2021	31 Dec 2020
	€m	€m
Total after netting of loans and advances centralised at the *'Caisse des Dépôts et Consignation'*[1]	**19,701**	16,838
Loan and advance centralised at the *'Caisse des Dépôts et Consignation'* presented net against regulated savings accounts[2]	**1,803**	1,671
Netting on reverse repurchase agreements[2]	**25,072**	29,434
Total before netting[1]	**46,576**	47,943
On demand deposits[1]	**2,756**	2,340
Term deposits	**43,621**	45,512
≤ 3 months	**40,212**	37,521
> 3 months and ≤ 1 year	**653**	4,833
> 1 year and ≤ 5 years	**2,752**	3,001
> 5 years	**4**	157
Accrued interests	**198**	91
Total	**46,576**	73,243
– *of which:*		
securities received under reverse repurchase agreements	***38,236***	*39,851*
subordinated loans	***40***	*47*

1 *Includes a reclassification in 2020 balances of EUR 25,300 million from 'Loans and advances to banks' to 'Cash and amounts due from central banks and post office banks'.*

2 *Refer to Note 1.*

3 Loans and advances to customers

Breakdown of outstanding loans by type

	31 Dec 2021	31 Dec 2020
	€m	€m
Total	**64,365**	64,100
Netting on reverse repurchase agreements	**5,817**	2,890
Total before netting	**70,182**	66,990
Commercial loans	**2,490**	2,601
Overdraft	**2,763**	3,067
Other customer facilities	**64,929**	61,322
Total	**70,182**	66,990
– *of which:*		
eligible loans for European Central Bank or Banque de France refinancing	***22,790***	*22,952*
reverse repurchase agreements	***13,650***	*13,993*

Breakdown of outstanding loans by quality

	31 Dec 2021				31 Dec 2020
	Performing loans	**Non-performing loans**	**Impairment on non-performing loans**	**Total**	Total
	€m	**€m**	**€m**	**€m**	€m
Retail loans	**18,375**	**170**	**(96)**	**18,449**	17,802
Financial customer loans	**3,582**	**–**	**–**	**3,582**	2,040
Non-financial customer loans	**33,680**	**1,233**	**(503)**	**34,410**	33,065
Reverse repurchase agreements	**13,650**	**–**	**–**	**13,650**	13,993
Accrued interests	**90**	**1**	**–**	**91**	90
Total	**69,377**	**1,404**	**(599)**	**70,182**	66,990
– of which:					
subordinated loans				**–**	–
gross non-performing loans				***1,007***	*1,212*
gross impaired loans				***397***	*421*
impairment on gross non-performing loans				***(318)***	*(341)*
impairment on gross impaired loans				***(281)***	*(297)*

Breakdown of outstanding loans by remaining contractual maturity

	31 Dec 2021	31 Dec 2020
	€m	€m
Repayable on demand[1]	**2,941**	3,348
Term deposits	**67,150**	63,552
≤ 3 months	**16,759**	14,666
> 3 months and ≤ 1 year	**10,357**	12,275
> 1 year and ≤ 5 years	**24,783**	21,491
> 5 years	**15,251**	15,120
Accrued interest[1]	**91**	90
Total	**70,182**	66,990

1 *Includes a reclassification in 2020 balances of EUR 81 million from 'Repayable on demand' to 'Accrued interest'.*

4 Portfolios of trading, available-for-sale securities and held-to-maturity securities

	31 Dec 2021 Carrying amount €m	31 Dec 2020 Carrying amount €m
Treasury bills and other eligible bills	**17,415**	24,629
– Trading account securities	**14,943**	20,491
– Available-for-sale securities	**2,467**	4,129
– Held-to-maturity securities	**—**	—
– Accrued interest	**5**	9
– *of which: securities borrowed presented net against corresponding liabilities*	***2,756***	***3,929***
Treasury bills and other eligible bills after netting	**14,659**	20,700
Debt securities	**4,506**	5,183
Trading account securities	**1,047**	1,474
– bonds and other quoted securities	**1,047**	1,474
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Available-for-sale securities	**2,880**	3,130
– quoted bonds	**2,773**	3,098
– unquoted bonds, interbank market securities and tradable debt securities	**107**	32
Held-to-maturity securities	**570**	570
– quoted bonds	**570**	570
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Accrued interest	**9**	9
– *of which:*		
subordinated debt	***470***	*470*
securities borrowed presented net against corresponding liabilities[1]	***6***	*763*
Debt securities after netting	**4,506**	4,420
Equity shares and similar & portfolio equities	**1,036**	158
Trading account securities	**997**	—
– quoted shares	**997**	—
– unquoted shares and similar	**—**	—
Available-for-sale securities	**—**	—
– quoted shares	**—**	—
– unquoted shares and similar	**—**	—
Portfolio activity securities	**39**	158
– quoted portfolio activity shares	**—**	—
– unquoted portfolio activity shares	**39**	158
Total	**22,957**	29,970

Breakdown by remaining contractual maturity of treasury bills and government bonds

	31 Dec 2021 €m	31 Dec 2020 €m
Treasury bills and other eligible bills		
≤ 3 months	**1,245**	1,032
> 3 months and ≤ 1 year	**1,392**	2,448
> 1 year and ≤ 5 years	**4,973**	5,899
> 5 years	**9,800**	15,241
Accrued interest	**5**	9
Total	**17,415**	24,629
Debt securities		
≤ 3 months	**179**	192
> 3 months and ≤ 1 year	**395**	426
> 1 year and ≤ 5 years	**2,629**	2,812
> 5 years	**1,294**	1,744
Accrued interest	**9**	9
Total	**4,506**	5,183

Estimated value of the portfolio of financial investments and portfolio equities

	31 Dec 2021		31 Dec 2020	
	Net carrying €m	Estimated €m	Net carrying €m	Estimated €m
Treasury bills and other eligible bills	**2,467**	**2,490**	4,129	4,214
Debt securities	**2,880**	**2,873**	3,130	3,174
Equity shares and similar and other portfolio equities	**39**	**45**	158	199
Total available-for-sale and portfolio activity securities (excluding related receivables)	**5,386**	**5,408**	7,417	7,587

The financial investments portfolio is made up mainly of fixed income securities for which the interest-rate risk is usually hedged. The portfolio valuation rules are given in Note 1b.

Unrealised gains and losses in financial investments and portfolio equities

	31 Dec 2021		
	Before provisions	Provisions	Net amount
	€m	€m	€m
Unrealised gains in available-for-sale and portfolio equities[1]	**54**	**—**	**54**
– treasury bills and other eligible bills	**34**	**—**	**34**
– bonds and other fixed-income securities	**14**	**—**	**14**
– equity shares and similar & portfolio equities	**6**	**—**	**6**
Unrealised losses in available-for-sale and portfolio equities[1]	**37**	**5**	**32**
– treasury bills and other eligible bills	**11**	**—**	**11**
– bonds and other fixed-income securities	**22**	**1**	**21**
– equity shares and similar & portfolio equities	**4**	**4**	**—**

1 *Of which associated derivatives represent EUR 13 million.*

Additional information on the securities given in compliance with ANC 2014-07 regulation dated 26 November 2014

No held-to-maturity securities have been sold during the period.

The premium (Unamortised difference between the acquisition price and the redemption price of securities) of available-for-sale and held-to-maturity securities amounted to EUR 8.5 million in 2021 and to EUR 76 million in 2020.

No security was transferred from one portfolio to another portfolio in 2021 or in 2020.

5 Investments in subsidiaries and equity securities held for long term

	31 Dec 2021	31 Dec 2020
	Net carrying amount	Net carrying amount
	€m	€m
Interests in subsidiaries and associates	**34**	64
Listed securities	**—**	—
– banks	**—**	—
– others	**—**	—
Non-listed securities	**34**	64
– banks	**9**	45
– others	**25**	19
Other long-term securities	**32**	21
Listed securities	**—**	—
– banks	**—**	—
– others	**—**	—
Non-listed securities	**32**	21
– banks	**—**	—
– others	**32**	21
Interests in group companies	**1,185**	1,359
Listed securities	**—**	—
– banks	**—**	—
– others	**—**	—
Non-listed securities	**1,185**	1,359
– banks	**407**	583
– others	**778**	776
Accrued income		—
Total (including the 1976 statutory revaluation)	**1,251**	1,444

	31 Dec 2021	31 Dec 2020
	€m	€m
Gross amounts at 1 January (excluding advances and accrued income)	**1,557**	1,557
Changes in the year:		—
– acquisitions of securities/share issues	**12**	22
– disposals/capital reductions	**(48)**	(17)
– effect of foreign exchange differences	**—**	—
– other movements/merger	**—**	(1)
Gross amounts at 31 December (excluding advances and accrued interests)	**1,521**	1,561
Impairments at 1 January	**(118)**	(118)
Changes in the year:		—
– new allowances[1]	**(153)**	(9)
– release of allowances no longer required	**1**	10
– other movements	**—**	—
– effect of foreign exchange differences	**—**	—
Impairment at 31 December	**(270)**	(117)
Accrued income	**—**	—
Net book value including accrued interests	**1,251**	1,444

1 *Includes exceptional new impairment for EUR 149 million. Refer to '2021 Highlights' and Note 30.*

6 Intangible assets

	31 Dec 2021	31 Dec 2020
	€m	€m
Gross amounts at 1 Jan	**532**	662
Changes in the year:	**–**	–
– transfers and other movements	**(2)**	1
– fixed asset acquisitions	**8**	34
– fixed asset disposals and other changes	**(7)**	(165)
Gross amounts value at 31 Dec	**531**	532
Amortisation at 1 January	**490**	315
Changes in the year:	**–**	–
– charges for the period for amortisation and impairment	**50**	333
– transfers and other movements	**–**	–
– fixed asset disposals and other changes[1]	**(49)**	(158)
Amortisation at 31 Dec	**491**	490
Net book value of fixed assets at 31 Dec	**40**	42

1 *Includes impairment reversal symmetric to the amortisation charge of EUR 43 million.*

Since 1 January 2016 and according to 2015-06 ANC new regulation of 23 November 2015 which modifies 2014-03 ANC regulation, the goodwill is recognised in a specific account in the relevant asset category after its affectation (art 745-6). The amortisation method and period are the same as those applied to amortised assets it is linked to (art 745-7).

Goodwill is impaired when the current value of one or more underlying assets, to which a portion of it was affected, is lower than the carrying amount of the asset(s) plus the attributed goodwill. The current value is the higher of the market value and the value-in-use (see articles 214-1 to 214-27 of 2015-06 ANC regulation).

Goodwill allocation of assets

	Gross amounts at 1 Jan 2021[1]	Increases	Decreases	Carrying amounts at 31 Dec 2021
	€m	€m	€m	€m
Intangible assets	–	–	–	–
Tangible assets	**4.4**	–	**0.1**	**4.3**
Financial assets[2]	**0.2**	–	–	**0.2**
Total	**4.6**	–	–	**4.5**

1 *Opening figures for 2021 are adjusted for EUR 0.2 million for the correction relating to 2020.*
2 *Included in Assets reported under Note 4 and Note 5.*

7 Tangible assets

	31 Dec 2021	31 Dec 2020
	€m	€m
Gross amounts at 1 Jan	**764**	786
Changes in the year:	**–**	–
– transfers and other movements	**–**	–
– fixed asset acquisitions	**46**	51
– fixed asset disposals and other changes	**(11)**	(73)
Carrying amount at 31 Dec	**799**	764
Depreciation at 1 January	**685**	605
Changes in the year:	**–**	–
– charges for the period for depreciation and impairment[1]	**85**	150
– transfers and other movements	**–**	–
– fixed asset disposals and other changes[2]	**(34)**	(70)
Depreciation at 31 December	**736**	685
Carrying amount at 31 Dec	**63**	79

1 *Include exceptional new charges for impairment for EUR 25 million. Refer to '2021 Highlights' and Note 30.*
2 *Include impairment reversal symmetric to the amortisation of EUR 23 million.*

Breakdown of tangible fixed assets by type

	31 Dec 2021	31 Dec 2020
	€m	€m
Operating land and buildings	**34**	34
Non-operating land and buildings	**1**	1
Other tangible assets	**28**	44
Carrying amount at 31 Dec	**63**	79

Finance lease

	31 Dec 2021	31 Dec 2020
	€m	€m
Assets under construction	**1**	3
Gross amount[1]	**780**	926
Amortisation	**(472)**	(481)
Accrued interests	**—**	—
Total	**309**	448

1 *Includes mainly road assets for EUR 293 million, public building and construction for EUR 93 million, IT Office for EUR 163 million.*

At 31 December 2021, the financial outstanding amounts to EUR 334 million (EUR 476 million in 2020) and the provision for negative unearned finance income before deferred tax to EUR 30 million (EUR 33 million in 2020).

8 Loan impairment

	Balance at 1 Jan 2021	Additions	Amounts utilised	Unused amounts reversed	Other movements	Balance at 31 Dec 2021
	€m	€m	€m	€m	€m	€m
Impairment on interbank and customer non-performing loans (excluding doubtful interest)	638	228	(60)	(201)	(5)	**600**
Impairment on securities	—	—	—	—	—	**—**
Provisions for loans commitments	44	12	—	(30)	(2)	**24**
Total of impairment and provisions recognised in cost of risk	682	240	(60)	(231)	(7)	**624**

Loan impairment charges

	31 Dec 2021	31 Dec 2020
	€m	€m
Net impairment charge for the period:		
– interbank and customer non-performing and impaired receivables (excluding doubtful interest)	**(60)**	(195)
– counterparty risk on securities	**—**	—
– loan commitments	**15**	(18)
– recoveries of amounts previously written off	**9**	2
Total loan impairment charges	**(35)**	(211)
– *of which:*		
unprovided losses on non-performing and impaired receivables	***(32)***	*(73)*
unprovided losses on loan commitments	***—***	*—*
losses hedged by provisions	***(60)***	*(50)*

9 Other assets

	31 Dec 2021	31 Dec 2020
	€m	€m
Total	**18,442**	—
Netting on cash collateral associated with derivatives[1]	**1,228**	—
Total before netting	**19,670**	33,261
– *of which:*		
securities transactions settlement accounts	***365***	*1,881*
sundry debtors and other receivables	***19,305***	*31,380*

1 *Refer to Note 1. In 2020, EUR 1,994 million assets arising from netting on cash collateral associated with derivatives would have been deducted from corresponding assets.*

10 Prepayments and accrued income

	31 Dec 2021	31 Dec 2020
	€m	€m
Total	**35,226**	—
Netting on derivatives[1]	**6,575**	—
Total before netting	**41,801**	54,134
– *of which:*		
items in course of collection from other banks	***91***	*128*
other assets[2]	***41,710***	*54,006*

1 *Refer to Note 1. In 2020, EUR 7,905 million assets arising from netting on derivatives would have been deducted from corresponding assets.*
2 *Including mark-to-market on derivatives instruments for EUR 40,645 million in 2021, and EUR 53,173 million in 2020.*

11 Deposits by banks

Deposits by banks

	31 Dec 2021 €m	31 Dec 2020 €m
Total	**27,557**	28,896
Netting on repurchase agreements	**25,072**	29,434
Total before netting	**52,629**	58,330
On demand deposits	**6,798**	6,528
Term deposits	**45,769**	51,760
≤3 months	**31,751**	34,833
>3 months and ≤ 1 year	**325**	2,813
>1 year and ≤5 years	**13,693**	14,114
>5 years	**–**	–
Accrued interest	**62**	42
Total	**52,629**	58,330
– of which: repurchase agreements	***30,051***	*37,281*

12 Customer accounts

Breakdown of customer credit balances by type of deposit

	31 Dec 2021 €m	31 Dec 2020 €m
Total after netting of loans and advances centralised at the *'Caisse des Dépôts et Consignation'*	**72,449**	63,319
Loan and advance centralised at the *'Caisse des Dépôts et Consignation'* presented net against regulated savings accounts	**1,803**	1,671
Netting on repurchase agreements	**5,817**	2,890
Total before netting	**80,069**	67,880
On demand deposits	**46,763**	39,887
Special demand accounts	**8,265**	7,999
Special term accounts	**708**	720
Term accounts	**14,747**	13,236
Total customer deposits (excluding repurchase agreements)	**70,483**	61,842
Repurchase agreements	**9,561**	6,009
Accrued interest	**25**	29
Total customer credit balance accounts	**80,069**	67,880

Breakdown of customer credit balances by remaining contractual maturities

	31 Dec 2021 €m	31 Dec 2020 €m
On demand deposits	**55,027**	47,886
Term deposits	**25,017**	19,965
≤3 months	**23,298**	18,082
>3 months and ≤1 year	**1,545**	1,601
>1 year and ≤5 years	**126**	225
>5 years	**48**	57
Accrued interest	**25**	29
Total	**80,069**	67,880

13 Debt securities in issue

	31 Dec 2021 €m	31 Dec 2020 €m
Certificates of deposit (including accrued interest)	**–**	–
Interbank market securities and tradable debt securities	**5,746**	7,838
Bonds	**12,234**	9,460
Accrued interest[1]	**170**	21
Total	**18,150**	17,319

1 *Includes the impact of the correction of an error. Refer to Note 30.*

Breakdown of debt securities by maturity

	31 Dec 2021	31 Dec 2020
	€m	€m
Debt securities	**17,980**	17,298
≤3 months	**2,330**	52
>3 months and ≤1 year	**1,855**	3,317
>1 year and ≤5 years	**6,388**	5,918
>5 years	**7,406**	8,011
Accrued interest[1]	**170**	21
Total	**18,150**	17,319

1 *Includes the impact of the correction of an error. Refer to Note 30.*

Issuance premium to be amortised is EUR 7.2 million at 31 December 2021 compared to EUR 9.8 million at 31 December 2020.

14 Provisions

	Balance at 1 Jan 2021	Additions[1]	Amounts utilised	Unused amounts reversed	Other movements	Balance at 31 Dec 2021
	€m	€m	€m	€m	€m	€m
Provisions for commitments by signature and disputes	**78**	**26**	**(33)**	**(30)**	**2**	**43**
Other provisions	**515**	**1,668**	**(144)**	**(64)**	**2**	**1,977**
Total	**593**	**1,694**	**(177)**	**(94)**	**4**	**2,020**

1 *Includes primarily exceptional provisions for EUR 1,609 million. See '2021 Highlights' and Note 30.*

Provision on PEL/CEL

	31 Dec 2021				
	PEL				
	≤ 4 years	> 4 years and ≤ 10 years	> 10 years	Total	CEL
	€m	€m	€m	€m	€m
Amounts collected	**15**	**265**	**397**	**678**	**86**
Outstandings collected	**–**	**–**	**–**	**–**	**–**
Provisions	**–**	**(1)**	**(6)**	**(7)**	**–**
Allocation to provisions/reversal	**–**	**–**	**–**	**–**	**–**

15 Other liabilities

	31 Dec 2021	31 Dec 2020
	€m	€m
Total after netting of cash collateral associated with derivatives	**39,264**	53,455
Netting on cash collateral associated with derivatives[1]	**385**	
Assets arising from securities borrowing transactions deducted from corresponding liabilities	**2,756**	4,692
Total before netting	**42,405**	58,147
Securities transactions settlement accounts	**1,072**	279
Sundry creditors[2]	**13,124**	17,137
Short position and securities received under repurchase agreements confirmed resold	**28,209**	40,731
Total	**42,405**	58,147

1 *Refer to Note 1. In 2020, EUR 779 million assets arising from netting on cash collateral associated with derivatives would have been deducted from corresponding liabilities.*
2 *Of which deposits on derivatives received in 2021: EUR 12,324 million and EUR 16,283 million in 2020.*

16 Accruals and deferred income

	31 Dec 2021	31 Dec 2020
	€m	€m
Total	**31,500**	
Netting on derivatives[1]	**7,418**	
Total before netting	**38,918**	53,704
– *of which:*		
Items in course of collection to other banks	***90***	*111*
Other liabilities[2]	***38,830***	*53,593*

1 *Refer to Note 1. In 2020, EUR 9,119 million assets arising from netting on derivatives would have been deducted from corresponding liabilities.*
2 *Including mark-to-market on derivatives instruments : EUR 37,645 million in 2021 and EUR 52,474 million in 2020.*

17 Subordinated debt

Subordinated debts are dated or undated, loans or securities, for which repayment is subordinated to other creditors in case of liquidation.

Accrued interest, if any, on these subordinated securities is recognised in the balance sheet in an accrued interest account with a corresponding amount recognised in profit and loss.

	31 Dec 2021 €m	31 Dec 2020 €m
Dated subordinated notes	—	—
Undated subordinated notes	16	16
Subordinated debts (dated and undated)	2,610	2,610
Accrued interest	2	2
Total	**2,629**	2,629

Securities issued by HSBC Continental Europe

Subordinated securities issued by HSBC Continental Europe, in euros and other currencies, are liabilities which will only be repaid in the event of liquidation after the interests of other creditors have been extinguished but before repayment of the holders of participating securities or equity.

Participating securities: undated subordinated securities

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2021 €m	31 Dec 2020 €m
Undated subordinated securities	22.07.1985		TMO – 0,25	FRF	**16**	16
Accrued interest					—	—
Total (including accrued interest)					**16**	16

Participating securities are refunded at a price equal to the par only in the case of the liquidation of the company.

Subordinated debts

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2021 €m	31 Dec 2020 €m
Subordinated debts[1]	22.12.2014	22.12.2029	Floating rate	EUR	**260**	260
Undated debts[2]	26.05.2017	perpetual	Fixed rate as defined on the contract	EUR	**200**	200
	28.03.2018	perpetual	Fixed rate as defined on the contract	EUR	**300**	300
	16.12.2019	perpetual	Floating rate	EUR	**250**	250
Subordinated debts[3]	26.05.2017	26.05.2027	Floating rate	EUR	**300**	300
	21.06.2018	21.06.2028	Floating rate	EUR	**300**	300
	29.01.2019	29.01.2029	Floating rate	EUR	**400**	400
	27.07.2019	27.06.2029	Floating rate	EUR	**100**	100
	22.05.2020	22.05.2030	Floating rate	EUR	**500**	500
Accrued interest					**2**	2
Total for securities issued by HSBC Continental Europe (including accrued interest)					**2,612**	2,612

1 *A total or a part refund will be possible from December 2024. The subordinated liabilities conversion in equity or in debt is not possible.*
2 *Tier 1 : A total or a part refund (Additional Tier 1) will be possible, under certain conditions, from the 26th of May 2022. The transformation in capital of these shares will be possible under certain conditions.*
3 *Tier 2 : A total or a part refund (Tier 2) will be possible, under certain conditions, from the 26th of May 2022. The subordinated liabilities conversion in equity or in debt is not possible.*

18 Called up share capital

	31 Dec 2021		31 Dec 2020	
(Shares with a nominal value of 5 euros)	**Number of shares**	**Total (in thousands of euros)**	Number of shares	Total (in thousands of euros)
At 1 Jan	**98,231,196**	**491,156**	98,231,196	491,156
– subscription options exercised	—	—	—	—
– new capital issued – merger	—	—	—	—
– reduction of capital	—	—	—	—
At 31 Dec	**98,231,196**	**491,156**	98,231,196	491,156

Voting rights

At 31 December 2021, the total of voting rights stood at 98,231,196.

19 Equity

	31 Dec 2021	31 Dec 2020
	€m	€m
Called-up share capital	**491**	491
Share premium account	**2,155**	2,155
Reserves	**1,041**	1,041
– legal reserve	**38**	38
– long-term gains reserve	**406**	406
– revaluation reserve	**3**	3
– extraordinary and other reserve	**305**	305
– free reserve	**294**	294
– revaluation reserve on past service costs	**(5)**	(5)
Retained earnings[1 2]	**2,322**	3,185
Interim dividend	**—**	—
Special tax-allowable reserves	**—**	—
Net profit for the year	**(1,589)**	(906)
Equity	**4,420**	5,966

1 *Before proposed appropriation submitted to HSBC Continental Europe Annual General Meeting's approval.*
2 *Include retrospective restatement of the opening balance of retained earnings (EUR 43 million) following the adoption of changes in methodology for the recognition of pension liabilities (EUR 35 million attributable to a change in accrual methodology, EUR 8 million attributable to the change in starting point for the accrual as a result of an IFRIC final agenda decision in relation to the period of service over which employee benefits are attributed). Refer to Note 1.*

Changes in equity

	2021
	€m
Balance at 1 Jan	**5,966**
Net profit for the year	**(1,589)**
New shares issued upon exercise of stock options	**—**
Capital increase	**—**
Interim dividend	**—**
Others[1]	**43**
Balance at 31 Dec	**4,420**

1 *Include retrospective restatement of the opening balance of retained earnings (EUR 43 million). Refer to Note 1.*

Legal reserve

This reserve is built up by appropriating at least one-twentieth of the year's profit. This appropriation ceases to be mandatory once this reserve reaches one-tenth of share capital. It is not distributable.

Net long-term gains reserve

Distributing this reserve would lead to an additional tax charge equal to the difference between standard tax rate and reduced tax rate.

Revaluation reserve (1976 revaluation)

This reserve could be incorporated into capital, but it cannot be distributed or used to offset losses.

Other reserves

Amounts put into reserves over five years ago would be subject to a levy if they were to be distributed.

For distributions paid on or after 1 January 2000, HSBC Continental Europe can charge the dividends against profits liable to corporate income tax for accounting periods ended at most five years ago, starting with the oldest, in application of the decree of 21 December 1999.

20 Pensions, post-employment benefits

	31 Dec 2021	31 Dec 2020 [1]
	€m	€m
Provision for employee-related commitments[2]	**119**	164

1 Includes a restatement of 2020 balances of EUR 6 million for HBCE branches.
2 Including EUR 6.0 million in 2021 for Executive Directors defined benefits pension plan and for EUR 5.1 million in 2020.

Principal actuarial assumptions of the post-employment defined benefit plans

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2021, and the 2021 periodic costs, were:

(in %)	Discount rate	Inflation rate	Rate of increase for pensions in payment and deferred pensions	Rate of pay increase
At 31 Dec 2021	**0.5**	**1.50**	**1.50**	**2.52**
At 31 Dec 2020	0.4	1.50	0.40	2.57

HSBC Continental Europe determines discount rates in consultation with its actuaries based on the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the defined benefit obligation.

Provision recognised

	31 Dec 2021	31 Dec 2020 [1]
	€m	€m
Present value of benefit obligations[2]	124	170
Fair value of plan assets	(5)	(6)
Net liability recognised	119	164

1 Includes a restatement of 2020 balances of EUR 6 million for HBCE branches.
2 Includes the impact of EUR 43 million due to change in methodology at the opening. Refer to Note 1.

The components of the table below have been recognised in on profit & loss.

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net benefit asset/ liability
	€m	€m	€m
Net defined benefit liability at 1 January 2021[1]	6	127	122
Current service cost	—	5	5
Net interest (income)/cost on the net defined benefit liability	—	—	—
Remeasurement effects recognised in other comprehensive income[2]	—	(3)	(3)
Benefits paid	(1)	(7)	(6)
At 31 Dec 2021	5	123	119

1 Includes the impact of EUR 43 million due to change in methodology at the opening (refer to Note 1) and restatement of 2020 balances of EUR 6 million for HBCE branches.
2 Includes EUR 5 million due to the change in actualisation rate and social charges rate.

Fair value of plan assets by asset classes

	31 Dec 2021			
	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	€m	€m	€m	€m
Fair value of plan assets	5	5	—	—
– equities	—	—	—	—
– bonds	4	4	—	—
– property	—	—	—	—
– derivatives	—	—	—	—
– other	1	1	—	—

21 Off-balance sheet items

	31 Dec 2021	31 Dec 2020
	€m	€m
A – Loan commitments		
Commitments given	51,083	47,223
Refinancing agreements and other financing commitments in favour of banks	2,032	2,544
In favour of customers	49,051	44,679
– confirmed credit facilities	49,000	44,594
– acceptances payable and similar instruments	51	85
Commitments received	2,780	3,324
Refinancing agreements and other financing commitments in favour of banks	2,780	3,324
B – Guarantee commitments		
Commitments given	20,163	9,695
– guarantees, acceptances and other securities to banks	2,595	2,603
– guarantees, acceptances and other securities to customers	17,568	7,093
Commitments received	27,095	17,931
– guarantees, acceptances and other security from banks	27,095	17,931

Other pledged assets

	31 Dec 2021
	€m
Covered bonds	3,999
Loans pledged on guarantee 3G and TRICP	2,828
Loans pledged on guarantee CCBM	17,173
Securities pledged on guarantee	3,170
Total	27,170

22 Derivatives

	31 Dec 2021				31 Dec 2020			
	Fair value	Hedging contracts[1]	Trading contracts[1]	Total[1]	Fair value	Hedging contracts[1]	Trading contracts[1]	Total[1]
	€bn	€bn	€bn	€bn	€bn	€bn	€bn	€bn
Unconditional transactions	**1.6**	**25**	**3,749**	**3,774**	(1.1)	29	3,634	3,663
Exchange traded	**—**	**—**	**50**	**50**	—	—	89	89
– interest rate	**—**	**—**	**41**	**41**	—	—	82	82
– exchange rate	**—**	**—**	**—**	**—**	—	—	—	—
– equity	**—**	**—**	**9**	**9**	—	—	7	7
Non-exchange traded	**1.6**	**25**	**3,699**	**3,724**	(1.1)	29	3,545	3,574
– futures	**—**	**—**	**326**	**326**	—	—	294	294
– interest rate	**2.1**	**25**	**2,663**	**2,688**	(0.6)	29	2,712	2,741
– exchange rate	**(0.1)**	**—**	**96**	**96**	(0.1)	—	90	90
– other contracts	**(0.3)**	**—**	**614**	**614**	(0.4)	—	449	449
Conditional transactions	**0.5**	**—**	**567**	**567**	(0.6)	—	723	723
Exchange traded	**—**	**—**	**78**	**78**	—	—	104	104
Interest rate	**—**	**—**	**1**	**1**	—	—	49	49
Exchange rate	**—**	**—**	**74**	**74**	—	—	50	50
Other contracts	**—**	**—**	**3**	**3**	—	—	5	5
Non-exchange traded	**0.5**	**—**	**489**	**489**	(0.6)	—	619	619
Caps and floors	**(0.2)**	**—**	**214**	**214**	(0.1)	—	229	229
Swaptions and options	**0.7**	**—**	**275**	**275**	(0.5)	—	390	390
– bought	**0.7**	**—**	**20**	**20**	(0.5)	—	25	25
– sold	**—**	**—**	**255**	**255**	—	—	365	365
Total derivatives	**2.2**	**25**	**4,316**	**4,341**	(1.7)	29	4,357	4,386

1 *Notional contract amounts.*

Other information on derivatives

	31 Dec 2021	31 Dec 2020
Notional contract amounts	**€bn**	€bn
Microhedge contract[1]	**18**	22
Macrohedge contract[2]	**7**	7
Trading	**2,663**	2,712
Other	**—**	—

1 *Interest rate swaps accounted for as micro-hedging are used to hedge interest and currency rate risk of an asset or a liability at the beginning of the transaction.*
2 *Interest rate swaps accounted for as macro-hedging are used to hedge and to manage the global interest rate risk of portfolio of assets and liabilities of the bank.*

Derivatives: maturity analysis

	31 Dec 2021			
	≤ 1 year	>1 year and ≤ 5 years	> 5 years	Total
(in billion euro)	**€bn**	**€bn**	**€bn**	**€bn**
Derivatives:				
– Exchange contracts	**58**	**95**	**39**	**192**
– Interest rate contracts	**1,232**	**1,272**	**999**	**3,503**
– Others	**598**	**46**	**2**	**646**
Total	**1,888**	**1,413**	**1,040**	**4,341**

Risk-weighted assets – Amount of Exposure At Default ('EAD') for derivatives contracts

	31 Dec 2021	31 Dec 2020
	€m	€m
A – Contracts concluded under Master agreement with close-out netting	**12,616**	11,747
1. Transactions with banks from OECD countries	**12,429**	11,587
2. Transactions with customers and banks localised outside OECD countries	**187**	160
B – Other contracts	**450**	331
1. Transactions with banks from OECD countries	**421**	320
– interest rate contracts	**164**	195
– exchange contracts	**115**	108
– equity derivatives contracts	**132**	17
– credit derivatives contracts	**2**	—
– commodities contracts	**8**	—
2. Transactions with customers and banks localised outside OECD countries	**30**	11
– interest rate contracts	**—**	2
– exchange contracts	**—**	9
– equity derivatives contracts	**29**	—
Total Exposure at Default	**13,066**	12,078
Corresponding risk-weighted assets ('RWA')	**3,190**	3,078

Clearing effect on Exposure at Default

	31 Dec 2021	31 Dec 2020
	€m	€m
Original exposure before credit risk mitigation (including close-out netting)	78,082	86,613
Exposure mitigation due to close-out netting	(63,779)	(73,243)
Exposure mitigation due to credit mitigation	(1,237)	(1,292)
Exposure value after credit risk mitigation	**13,066**	12,078

The increase in exposure at default is driven by the implementation of SA-CCR methodology in June 2021.

23 Net interest income

	31 Dec 2021	31 Dec 2020
	€m	€m
Interest and similar income		
Banks and financial institutions	487	537
Customers	959	1,069
Bonds and other fixed-income securities	70	329
Total	**1,516**	1,935
Interest and similar expenses		
Banks and financial institutions	591	745
Customers	223	276
Subordinated liabilities	56	55
Other bonds and fixed-income securities[1]	113	324
Total	**984**	1,400

1 *Excludes the impact of the correction of an error. Refer to Note 30.*

24 Income from equities and other variable income securities

	31 Dec 2021	31 Dec 2020
	€m	€m
Income		
Available-for-sale and similar & portfolio activity securities	6	2
Interests in subsidiaries and associates and other long-term securities	–	–
Interests in group companies	37	24
Total	**43**	26

25 Commissions received and commissions paid

	31 Dec 2021	31 Dec 2020
	€m	€m
Fees		
Income	**1,123**	993
On transactions with banks	55	34
On transactions with customers	105	95
On foreign exchange transactions	2	1
On primary securities market activities	166	125
On provision of services for third parties	591	543
On commitments	167	152
Other commission	37	43
Expenses	**(296)**	(205)
On transactions with banks	(47)	(31)
On corporate actions	(82)	(49)
On forward financial instrument activities	(3)	(6)
On provision of services for third parties	(123)	(110)
On commitments	(1)	(1)
Other commission	(40)	(8)
Total fees	**827**	788

26 Gains and losses on portfolio business transactions

	31 Dec 2021	31 Dec 2020
	€m	€m
Gains or losses		
Trading securities	101	(317)
Foreign exchange transactions	174	220
Other derivatives	(145)	284
Total	**130**	188

27 Gains or losses on available-for-sale securities

	31 Dec 2021 €m	31 Dec 2020 €m
Results for available-for-sale securities		
Gains or losses	**19**	49
Impairment	**(2)**	12
– charges	**(2)**	—
– releases	**—**	12
Results for portfolio activity securities		
Gains or losses	**48**	27
Impairment	**4**	8
– charges	**4**	(2)
– releases	**—**	10
Total[1]	**69**	96

1 *Refer to Note 4.*

28 General operating expenses

	31 Dec 2021 €m	31 Dec 2020 €m
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation	**(859)**	(857)
Pension expense	**(88)**	(98)
Profit sharing	**—**	—
Incentive plan	**—**	—
Employee compensation and benefits subtotal	**(947)**	(955)
Other administrative expenses[1]	**(812)**	(1,052)
Total operating expenses	**(1,759)**	(2,007)

1 *Excludes external expenses directly linked to the planned sale of the retail banking business, classified as exceptional items. Refer to '2021 Highlights' and Note 1.*

Share award plans

At 31 December 2021, allowance stood at EUR 9.1 million.

29 Gains or losses on disposals of long-term investments

	31 Dec 2021 €m	31 Dec 2020 €m
Gains or losses on held-to-maturity securities	**—**	—
Gains or losses on tangible and intangible fixed assets	**—**	2
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies	**(4)**	71
Total	**(4)**	73

30 Exceptional items

	31 décembre 2021 €m	31 décembre 2020 €m
Extraordinary loss		
Loss-making contract provision[1]	**(1,526)**	
Impairment on tangible assets and costs of investment[1]	**(174)**	
Disposal costs[1]	**(106)**	
Correction of error[2]	**(110)**	
Others	**—**	100
Total	**(1,916)**	100

1 *Losses linked the planned sale of the French retail banking business. Refer to '2021 Highlights'.*
2 *Correction of error relating to understatement of interest expense on structured rates issuances classified as debt securities in issue. Total impact is EUR 110 million recognised in 2021 of which EUR 34 million in respect of 2018, EUR 47 million 2019 and EUR 29 million 2020.*

31 Tax expense and deferred tax

	31 Dec 2021	31 Dec 2020
	€m	€m
Current tax		
At standard rate	**29**	(9)
At reduced rate	**—**	—
Deferred taxation	**458**	(102)
Total	**488**	(111)

Deferred taxes are calculated according to the principles defined in Note 1.

The rates used for the calculation of taxes are as follow and are based on payment due date:

	Echéance 2022	*Echéance 2021*	*Echéance 2020*
	%	%	%
Standard rate	**27.50**	31.00	33.33
Reduced rate (PVLT gains rate)	**3.3**	3.7	4.0
Reduced rate (gains on disposal of property to SIIC)	**19.0**	19.0	19.0
Reduced rate (common funds on risk placement)	**15.0**	15.0	15.0
Tax contribution			
CSB	**3.3**	3.3	3.3
Exceptional contribution	**—**	—	—
Deferred taxation			
Standard rate on DT if assumption of recovery on 2021	**NA**	27.5	27.5
Standard rate on DT if assumption of recovery on 2022	**25**	25	25
Standard rate on DT if assumption of recovery on 2023	**25**	25	25
Standard rate on DT from 2024	**25**	25	25
Reduced rate on DT if assumption of recovery on 2021	**NA**	3.3	3.3
Reduced rate on DT if assumption of recovery on 2022	**3**	3	3
Reduced rate on DT if assumption of recovery on 2023	**3**	3	3
Reduced rate on DT from 2024	**3**	3	3

HSBC Continental Europe's profits are taxed at different rates depending on the country in which the profits arise. In France, the 2020 Finances Law ('Loi de Finances') changed the target for the gradual decrease of the corporate tax rate. For the 2021 fiscal year, the applicable corporate tax rate is 27.5 per cent which will reduce to 25 per cent in 2022. The social contribution on profit (CSB at 3.3 per cent of the corporate income tax) is maintained and is added to the corporate income tax. As a consequence, for the French tax group in 2021, the applicable tax rate was 28.41 per cent (2020: 32.02 per cent).

Current tax

The 2021 current tax expense reflected a tax profit of EUR 29 million (compared to a tax expense of EUR 9 million), mainly explained by the amount of grants received from the HSBC Bank Plc Paris Branch (head of the France tax group since fiscal year 2001) of EUR 47 million in 2021 compared to EUR 29 million in 2020 and the receipt of a refund for EUR 10 million on a prior claim in France. Additionally, there has been a decrease in current tax expense for European branches in 2021 compared to 2020 due to the decrease of taxable results, mainly in Spain and Italy.

Deferred tax

The 2021 deferred tax impact was a EUR 458 million profit, compared to an expense of EUR 102 million in 2020, driven by the net deferred tax asset recognition in the French tax group and European branches (mainly Spain) following management's assessment of the likely availability of future taxable profits against which to recover the deferred tax assets.

Following the signing of the Framework Agreement for the planned sale of the French retail banking business, a provision for loss on disposal was recognised in the French tax return resulting in an increase in the potential deferred tax assets for tax losses carry forward to EUR 591 million (in 2020 it was EUR 139 million) as at 31 December 2021.

Management assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the French tax group, taking into consideration the reversal of existing taxable temporary differences, the drivers of past business performance, forecasts of future business performance and associated forecasting uncertainty. Following the signing of the Framework Agreement in 2021 for the planned sale of the French retail banking business, that business is now excluded from our deferred tax analysis as its sale is considered probable. Although the French consolidated tax group recorded a tax loss in both 2020 and 2021, this would have been taxable profit if the effects of the retail banking business and other non-recurring items were excluded. The French net deferred tax asset is supported by forecasts of taxable profit, also taking into consideration the history of profitability in the remaining businesses.

As a result of this assessment and management judgment, EUR 456 million in net deferred tax assets were recognized in 2021 (compared to EUR 16 million in 2020) of which EUR 350 million partial recognition of tax losses carried forward which are expected to be substantially recovered within 10 years (of a total potential amount of EUR 591 million) and EUR 106 million of net temporary differences (fully recognised). The net deferred tax asset recognised is judged not to be highly sensitive to possible changes in forecast cash flows both in respect of specific risks and general forecasting risks. Potential deferred tax assets that remained unrecognised at 31 December 2021 amounted to EUR 241 million.

Unrecognised deferred tax

The amount of unused tax losses of the French tax group for which no deferred tax assets is recognised in the balance sheet was EUR 933 million (2020: EUR 539 million). These losses can be carried forward indefinitely.

32 Legal proceedings and regulatory matters relating to HSBC Group entities generally

HSBC Group entities, including HSBC Continental Europe, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 'Legal risks and litigation management' on pages 162 and 163 of the *Universal Registration Document 2021*, HSBC Continental Europe considers that none of these matters is significant. HSBC Continental Europe recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2021.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in July 2020, and consented to a cease-and-desist order with the Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who was, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act, and for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme.

In 2020, HSBC's engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, concluded. The role of FCA Skilled Person was assigned to a new individual in the second quarter of 2020. Separately, in early 2021, a new FRB Independent Consultant was appointed pursuant to the cease-and-desist order.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008 in the United States and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US by a trustee (the 'Trustee').

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities.

Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud, amongst which are HSBC Institutional Trust Services (Ireland) DAC ('HTIE') and/or its subsidiary Somers Dublin DAC.

On 1 August 2018 HSBC Continental Europe acquired from HSBC Bank plc 100 per cent of the shares of HTIE. Pursuant to the terms of the Sale and Purchase Agreement, HSBC Continental Europe and/or its subsidiaries will be indemnified by HSBC Bank plc in respect of certain liabilities relating to the activities of HTIE and/or Somers. (HTIE subsequently merged into HSBC Continental Europe Dublin Branch.)

The Madoff-related proceedings HTIE and/or its subsidiary Somers Dublin DAC are involved in are described below:

US litigation:

The Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court'), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the actions have moved to dismiss the Trustee's claims. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016.

In February 2019, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') reversed that dismissal. Following the US Supreme Court's denial of certiorari in June 2020, the cases were remanded to the US Bankruptcy Court, where they are now pending.

European interbank offered rates investigations

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America ('US'), the EU, Italy, Switzerland, and elsewhere are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates (Euribor). HSBC and/or its subsidiaries (including HSBC Continental Europe as a member of the Euribor panel) have been the subject of regulatory demands for information and have cooperated with those investigations and reviews.

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC Continental Europe. HSBC appealed the decision and, in September 2019, the General Court of the EU (the 'General Court') issued a decision largely upholding the EC's findings on liability, but annulling the fine.

HSBC and the EC both appealed the General Court's decision to the European Court of Justice (the ‘Court of Justice’). In June 2021, the Commission adopted a new fining decision for an amount which was 5 per cent less than the previously annulled fine, and subsequently withdrew its appeal to the Court of Justice. HSBC’s appeal remains pending against the General Court's decision as well as its appeal against the new fining decision.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, following the conclusion of the US Department of Justice’s (‘DoJ’) investigation into HSBC’s historical foreign exchange activities, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the ‘FX DPA’), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. In January 2021, the FX DPA expired, and in August 2021 the charges deferred by the FX DPA were dismissed.

33 Presence in non-cooperative states or territories

HSBC Continental Europe does not hold any direct or indirect presence in any non-cooperative States or territories in accordance with the article 238-0 A of the General Tax Code.

34 Events after the balance sheet date

There was no material event subsequent to the reporting date that would require a correction or adjustment to the statutory financial statements as at 31 December 2021.

New products and services are offered to customers of the HSBC Group in Continental Europe on a regular basis. Information is available on the Group’s websites, in particular in the press releases posted at www.hsbc.fr.

Proposed Capital Increase

On 22 February 2022, the Board of Directors convened an Extra-Ordinary General Meeting on 11 March 2022 to propose a share capital increase of EUR 700 million.

There have been no other significant events between 31 December 2021 and the date of approval of these financial statements which would require an additional disclosure in the financial statements.

35 Other information

35.1 Interests in subsidiaries and related parties at 31 December 2021

(in thousands of euros unless otherwise stated)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %	Book value of securities held – Cost	Book value of securities held – Net	Loans and advances granted by HSBC Continental Europe	Guarantees given by HSBC Continental Europe	Last year's sales	Last year's net profit or loss	Dividends received by HSBC Continental Europe in the last financial year
A – Information on companies whose book value at cost exceeds 1% of HSBC Continental Europe's share capital												
1 – Subsidiaries (over 50%)												
HSBC SFH (France) (ex–HSBC Covered Bonds), Immeuble Coeur Défense –110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Financial company	113,250	975	100.00	113,239	—	—	—	36,888	(3,000)	—
HSBC Factoring (France) 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Factoring	9,240	99,912	100.00	39,236	39,236	1,455,226	—	30,965	10,249	—
Société Française et Suisse, 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Investment company	599	8,893	100.00	60,384	9,727	—	—	-	(27)	—
SAPC UFIPRO Recouvrement 38, avenue Kléber – 75116 Paris (France)	Limited liability company (SARL)	Dept collecting company	7,619	1,307	99.98	16,262	9,191	—	—	-	(5)	—
HSBC Epargne Entreprise (France), Immeuble Coeur Défense–110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Limited company (SA)	31,000	(7,549)	100.00	30,148	23,839	—	—	5,184	(4,955)	—
HSBC Global Asset Management (France) Immeuble Coeur Défense–110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Asset managemet	8,050	40,831	93.67	134,546	134,546	460	—	196,736	27,991	18,381
HSBC Services (France) (ex – HSBC Securities) 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Commercial company	2,442	521	100.00	36,877	2,954	—	—	—	(16)	—
Valeurs Mobilières Elysées (ex – Nobel), 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Limited company (SA)	41,920	7,597	100.00	67,757	50,586	—	—	—	120	—
HSBC Leasing (France) 38, avenue Kléber – 75116 Paris (France)	Simplified joint-stock company (SAS)	Leasing	168,528	192,156	100.00	281,756	281,756	116,751	—	—	13,914	—
SFM 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Holding company	11,987	14,413	100.00	25,201	25,201	—	—	—	133	—
Foncière Elysées S.A. 38, avenue Kléber – 75116 Paris (France)	Simplified joint-stock company (SAS)	Real estate	14,043	14,885	100.00	44,478	39,383	—	—	1,660	1,441	729
Charterhouse Management Services Ltd 8 Canada Square – London E14 5HQ (Royaume-Uni)	Limited company under English law	Investment company	11,315	—	100.00	11,901	11,901	—	—	8	(6)	—
HSBC Real Estate Leasing (France), 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Crédit-bail immobilier	38,255	60,653	80.98	37,190	37,190	—	—	109,504	7,185	5,692
CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (Royaume-Uni)	Limited company under English law	Investment holding	5,629	—	100.00	5,040	5,040	—	—	—	—	—
HSBC Assurances Vie (France), Immeuble Coeur Défense-110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Insurance company	115,000	636,825	100.00	513,999	513,999	—	—	1,632,64	80,745	—

(in thousands of euros unless otherwise stated)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %	Book value of securities held		Loans and advances granted by HSBC Continental Europe	Guarantees given by HSBC Continental Europe	Last year's sales	Last year's net profit or loss	Dividends received by HSBC Continental Europe in the last financial year
						Cost	Net					
B – Aggregate data concerning companies whose book value at cost does not exceed 1% of HSBC Continental Europe's share capital												
1 – Subsidiaries												
a) French subsidiaries (aggregated)	—		—	—	—	—	—	—	—	—	—	—
b) Foreign subsidiaries (aggregated)	—		—	—	—	—	—	—	—	—	—	—
2 – Related party companies												
a) French companies (aggregated)	—		—	—	—	4	—	—	—	—	—	—
b) Foreign companies (aggregated)	—		—	—	—	—	—	—	—	—	—	—

35.2 Transactions with subsidiaries and other related parties

	31 Dec 2021	
	Subsidiaries	**Other related parties**
	€m	**€m**
Assets		
Treasury bills and money-market instruments	**—**	**4,994**
Loans and advances to banks	**2,696**	**1,852**
Loans and advances to customers	**88**	**—**
Bonds and other fixed income securities	**—**	**—**
Liabilities		
Due to credit institutions	**3,467**	**8,295**
Customer accounts	**218**	**18**
Debt securities	**—**	**—**
Other liabilities	**—**	**4,251**
Subordinated liabilities	**—**	**1,860**
Off-balance sheet items		
Financing commitments given	**1,547**	**—**
Guarantees and endorsements given	**—**	**234**
Securities commitments (other commitments given)	**—**	**—**

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO Paris
43-47, avenue de la Grande Armée
75116 Paris

Statutory Auditors' report on the financial statements

(For the year ended 31 December 2021)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

HSBC Continental Europe (formerly HSBC France)

38, avenue Kléber

75116 Paris

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of HSBC Continental Europe for the year ended 31 December 2021.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2021 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors, for the period from 1 January 2021 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No. 537/2014.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the correction of an error relating to the interest expense on structured bonds recognised as debt securities, as described in Notes 13, 23 and 30 to the financial statements.

We also draw your attention to Note 1 which outlines changes in accounting principles such as:

- the amendment of recommendation no. 2013-02 of 7 November 2013 by the French accounting standard-setter *(Autorité des Normes Comptables – ANC)* which clarifies the service period for which employee benefits granted under defined benefit plans should be taken into account; and
- the voluntary change in accounting method for the presentation of trading derivatives and associated collateral.

Justification of assessments – Key audit matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

Complex derivative financial instruments measured at fair value based on unobservable data

Description of risk	How our audit addressed this risk
As part of its activities, HSBC Continental Europe holds complex derivative financial instruments. Derivative financial instruments are financial assets or liabilities measured at fair value on the balance sheet. The offsetting entry for the remeasurement of financial instruments at fair value at the reporting date is recognised in profit or loss. The measurement of derivatives may require the use of internally developed models using unobservable data such as long-term interest rates or volatilities for certain currencies. The measurement of more complex instruments may require several unobservable inputs such as volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices. It also takes account of adjustments for counterparty and liquidity risk. In view of the multiple inputs subject to management's judgement, we deemed the measurement of complex derivative financial instruments whose fair value is based on unobservable data to be a key audit matter for HSBC Continental Europe's financial statements.	We tested the effectiveness of the controls we deemed key to our audit, put in place by management to record, value and recognise these financial instruments, and specifically those regarding: • the independent validation of valuation models by the Independent Model Review – Markets department; • the independent verification of prices and valuations by the Product Control department; • the determination of fair value adjustments ("FVA"). We also sought the support of our experts in risk modelling to carry out, on a sample basis, an independent valuation of instruments measured based on unobservable data, using their own models and market inputs in order to assess the valuations generated by HSBC Continental Europe's internal models. We examined the assumptions, methods and models used by the Bank to estimate the main valuation adjustments (counterparty and liquidity risk) in order to assess their relevance.

At 31 December 2021, derivative instruments (including those whose fair value is measured based on unobservable data) represented EUR 40,645 million recognised under assets and EUR 37,645 million recognised under liabilities.
See Notes 10 and 16 to the financial statements.

Individual impairment of consumer loans in Commercial Banking

Description of risk	How our audit addressed this risk
As part of its wholesale lending businesses, at year end HSBC Continental Europe estimates the risk of impairment of its portfolio and recognises any appropriate allowances. The Covid-19 crisis increased the degree of uncertainty of this estimate. Assessing the existence of a risk of non-recovery and the amount of the allowance set aside requires the Bank's management to exercise judgement and is subject to a high degree of uncertainty, which grew during the Covid-19 crisis. This assessment primarily takes into account potential risk indicators such as payments that are contractually past-due or other factors such as indications of a deterioration in the financial condition and outlook of borrowers affecting their ability to pay, business sectors experiencing economic stress, the recoverable amount of guarantees, likely available dividends in the event of liquidation or bankruptcy, and the viability of the customer's business model. Given the material nature of these outstanding for the Bank, the significance of management's judgement in estimating the allowances and the higher historical cost of risk in an admittedly less favourable context, we deemed this to be a key audit matter.	Management has put in place controls designed to ensure the reliability of the calculation of individual impairment. In this context, we tested the controls we deemed key to our audit, in order to assess the relevance of the impairment losses recorded. Our tests concerned the controls in place for monitoring loans, regularly reviewing credit files and approving individual impairment. We performed a critical assessment of the tests used by management to verify that the estimated allowances determined using internally-developed models were proportionate to the actual losses observed in prior periods. We also tested the appropriateness of the methods and policies used to determine allowances, using a sample of loans selected based on risk. Based on this sample, we independently assessed the level of allowances recognised.

Impairment of doubtful receivables stood at EUR 600 million at 31 December 2021.
See Notes 3 and 8 to the financial statements.

Provision for contract loss related to the sale of the French retail banking business

Description of risk	How our audit addressed this risk
In the context of the strategic review, on 18 June 2021, HSBC Continental Europe signed a memorandum of understanding with Promontoria MMB SAS ('My Money Group' or 'MMG') and its subsidiary Banque des Caraïbes SA, relating to the disposal of HSBC Continental Europe's retail banking business in France. At 25 November 2021, HSBC Continental Europe signed the framework agreement with MMG. The sale, which is subject to regulatory approvals and other conditions, covers HSBC Continental Europe's retail banking business in France, the Crédit Commercial de France ('CCF') brand and all of the shares held by HSBC Continental Europe in HSBC SFH (France) and HSBC Continental Europe's shareholding in Crédit Logement representing 3 per cent of Crédit Logement's capital. It is estimated that the pre-tax loss, including associated transaction costs, resulting from the transfer would be approximately EUR 1.8 billion for HSBC Continental Europe. In the financial statements at 31 December 2021, the provision for contract loss (EUR 1.5 billion) and the costs of the transaction (EUR 0.1 billion) have been recognised. Asset impairment of EUR 0.2 billion has also been recognised. Given the materiality of the amounts recognised, and the resulting tax implications, we deemed the disclosure of this information in the notes and the recognition of this loss to be a key audit matter.	We assessed the appropriateness of the information justifying the loss provision recorded at 31 December 2021. We examined the correct identification and valuation of the assets and liabilities held for sale in the balance sheet at 31 December 2021. We also examined the tax impacts associated with this transaction based on applicable tax regulations, with the assistance of our tax experts and after discussions with the Group's tax department. Lastly, we assessed the appropriateness of the disclosures relating to this transaction in the notes to the financial statements, and in particular the paragraph concerning '2021 Highlights' describing the proposed sale of the retail banking business in France, Note 14, 'Provisions' and the accounting rules and methods relating to the application of French accounting principles.

See highlights on page 247 of the Universal Registration Document and Notes 14, 30 and 31 to the financial statements.

Recognising deferred tax assets

Description of risk	How our audit addressed this risk
The recognition of deferred tax assets is based on an assessment of future taxable profits that can be used to absorb accumulated tax losses. At 31 December 2021, EUR 458 million of deferred tax assets were recognised. These deferred taxes are the result of the partial recognition of tax loss carry-forwards. Management has performed an analysis of the recoverability of deferred tax assets in order to estimate the probability of future taxable profits, taking into account in particular the impact of the effects of the sale of the retail banking business and other non-recurring items on the tax results of the tax group. Due to the significance of the deferred tax assets recorded in HSBC Continental Europe's financial statements and the significant judgements and assumptions made by management in determining the amount and probability of future taxable profits, in a context of recent losses, we deemed the recognition of deferred tax assets to be a key audit matter. Management's assessment takes into account the impact of the sale of the French retail banking business, including the impact that this business, and other one-off restructuring costs, have had on profitability in the last two years, but also on future taxable profits in a number of scenarios.	We tested the design and operating efficiency of controls over the recognition of deferred tax assets. We tested the key data used in the deferred tax accounting model, including the cash flow forecasts in the plans approved by the Board of Directors. We assessed the appropriateness of the methodology and underlying assumptions determined by management to assess the recoverability of deferred tax assets. Lastly, we assessed the appropriateness of the disclosures provided in the notes to the financial statements, in particular Note 1 ('Principal accounting policies') and Note 31 ('Tax expense and deferred tax')

EUR 458 million of deferred tax assets have been recognised at 31 December 2021.
See Note 31 to the financial statements.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to the shareholders with respect to the Company’s financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors’ management report and in the other documents provided to the shareholders with respect to the Company’s financial position and the financial statements, with the exception of the following matter.

Concerning the fair presentation and the consistency with the financial statements of the information about payment terms referred to in article D.441-4 of the French Commercial Code, we have the following matter to report:

As indicated in the management report, this information does not include banking transactions and related transactions, as the Company has decided that such transactions do not fall within the scope of the required information.

Report on corporate governance

We attest that the Board of Directors’ report on corporate governance sets out the information required by articles L.225-37-4 and L.22-10-10 of the French Commercial Code.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the financial statements to be included in the annual financial report

In accordance with professional standards applicable to the Statutory Auditors’ procedures for annual and consolidated financial statements presented according to the European single electronic reporting format, we have verified that the presentation of the financial statements to be included in the annual financial report referred to in paragraph I of article L.451-1-2 of the French Monetary and Financial Code *(Code monétaire et financier)* and prepared under the Chief Executive Officer’s responsibility, complies with this format, as defined by European Delegated Regulation No. 2019/815 of 17 December 2018.

On the basis of our work, we conclude that the presentation of the financial statements to be included in the annual financial report complies, in all material respects, with the European single electronic reporting format.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC Continental Europe by the Annual General Meetings held on 23 April 2015 for PricewaterhouseCoopers Audit and on 10 May 2007 for BDO Paris.

At 31 December 2021, PricewaterhouseCoopers Audit and BDO Paris were in the seventh and fifteenth consecutive year of their engagement, respectively.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the financial statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit. They also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant in the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris, 23 February 2022

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO Paris**
Agnès Hussherr	Arnaud Naudan
Partner	Partner

Allocation of net profit

	At	
	31 Dec 2021	31 Dec 2020
	€m	€m
Results available for distribution		
– retained earnings	**2,322**	3,185
– net profit for the year	**(1,589)**	(907)
Total (A)	**733**	2,278
Allocation of income		
– dividends	**–**	–
– legal reserve	**–**	–
– free reserve	**–**	–
Total (B)	**–**	–
Retained earnings (A-B)	**733**	2,278

Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

	2021	2020	2019	2018	2017
	€m	€m	€m	€m	€m
Share capital at year end					
Called up share capital	**491**	491	491	367	337
Number of issued shares	**98,231,196**	98,231,196	67,437,827	67,437,827	67,437,827
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Sales	**3,228**	3,285	3,560	3,043	2,869
Profit before tax, depreciation and provisions	**(2,042)**	(455)	(120)	59	238
Profit after tax, depreciation and provisions	**(1,589)**	(906)	(147)	78	172
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**(15.9)**	(5.8)	(0.6)	1.3	3.3
Profit after tax, depreciation and provisions	**(16.2)**	(9.2)	(1.5)	1.1	2.5
Dividend paid per ordinary share, eligible as of 1 January	**–**	–	–	–	1.66
Employees (France)					
Number of employees[1]	**7,993**	8,835	9,314	8,377	8,080
Average number of employees (excluding employees available)	**8,338**	9,058	9,281	8,341	8,202
Salaries and wages	**629**	640	639	543	515
Employee benefits	**245**	248	247	249	249
Payroll and other taxes	**63**	58	53	64	61
Incentive schemes and/or employee profit-sharing scheme[2]	**–**	–	6	20	23

1 *Banking status employees, registered as at 31 December of each year.*
2 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2021 (excluding trading securities)

Held-on maturity, available-for-sale and portfolio activity securities

	31 Dec 2021
	€m
A – Held-to-maturity securities	**571**
Debt securities	**571**
Treasury bills and other eligible bills	**–**
Other public sector securities	**–**
Money market instruments	**–**
Negotiable certificates of deposit	**–**
Negotiable medium-term notes	**–**
Bonds and similar assets	**570**
Accrued interest	**1**
B – Available-for-sale and portfolio activity securities	**5,399**
Debt securities	**5,360**
Treasury bills and other eligible bills	**–**
Other public sector securities	**2,467**
Money market instruments	**–**
Commercial paper	**–**
Negotiable certificates of deposit	**–**
Negotiable medium-term notes	**–**
Asset-backed securities	**–**
Bonds and similar	**2,880**
Negotiable medium-term notes issued by banks	**–**
Accrued interest	**13**
Equity shares	**39**
Equity shares and similar	**39**
Mutual fund units	**–**
Total held-to-maturity, available-for-sale and portfolio activity securities	**5,970**

Interests in related parties, other participating interests and long-term securities

	31 Dec 2021
	€m
A – Other participating interest and long-term securities	**66**
Securities listed on a recognised French exchange	–
Unlisted French securities	66
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	–
Unlisted foreign securities	–
Accrued income	–
B – Interests in related parties	**1,185**
Listed French securities	–
Unlisted French securities	1,168
Listed foreign securities	–
Unlisted foreign securities	17
Accrued income	–
Total interests in related parties, other participating interests and long-term securities	**1,251**

HSBC Continental Europe's principal subsidiaries and investment policy

HSBC Continental Europe's principal subsidiaries at 31 December 2021

Commercial Banking

Distribution	HSBC Factoring (France) (100 per cent)

Global Banking

Real estate	Foncière Elysées (100 per cent)
	HSBC Real Estate Leasing (France) (100 per cent)
Structured financing and Global Banking	HSBC SFH (France) (100 per cent)
	SFM (100 per cent)
	HSBC Leasing (France) (100 per cent)

Asset Management

France	HSBC Global Asset Management (France) (100 per cent)
	HSBC Epargne Entreprise (France) (100 per cent)
	HSBC REIM (France) (100 per cent)
Abroad	HSBC Global Asset Management (Switzerland) (50 per cent)

Insurance

France	HSBC Assurances Vie (France) (100 per cent)

Subsidiaries and equity investments

France	Valeurs Mobilières Elysées (100 per cent)
	Société Française Suisse (100 per cent)
Abroad	Charterhouse Management Services Ltd (100 per cent)

Stated percentages indicate the group's percentage of control.
The subsidiaries are classified in the area where they principally operate.

Summary business activities of HSBC Continental Europe's principal subsidiaries at 31 December 2021

Commercial Banking

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
HSBC Factoring (France)	**2,354,143**	2,715,393	**149,804**	137,835	**10,249**	15,729	**100**	100
	HSBC Factoring (France)'s activity continue with the decrease trend in 2021, with gross turnover of EUR 17,99 billion at the end of December 2021, which represents an decrease of 18 per cent compared to 2020. Net profit decreased by 35 per cent, driven by 17 per cent mainly explained by receivable sold by our customers in the context of the Covid-19 crisis on the one hand and HSBC Factoring policyof withdrawing from unprofitable contracts on the other.							

Global Banking

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
HSBC SFH (France)	**3,777,696**	3,376,820	**111,225**	114,225	**(471)**	387	**100**	100
	HSBC SFH (France) is a company dedicated to refinancing HSBC Continental Europe by issuing covered bonds secured by home loans (cover pool). HSBC SFH (France) launched its first issue on 20 January 2010. In 2021, no new covered bonds were issued. At 31 December 2021, issues totaled EUR 3.3 billion secured by a cover pool of EUR 4 billion.							
HSBC Leasing (France)	**561,640**	837,951	**366,214**	360,684	**13,914**	19,034	**100**	100
	HSBC Leasing (France) specialises in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. It operates more particularly in the aeronautics sector by financing assets on behalf of airlines. The equity interests in 2021 totaling EUR 0.6 billion, a decrease of 25 per cent compared to 2020.							
HSBC Real Estate Leasing (France)	**924,154**	983,745	**106,093**	105,937	**7,185**	7,010	**100**	100
	The net income for this subsidiary specialised in real estate leasing increased by 2.5 % compared to 2020. Production this year was EUR 17 million. Portfolio contains 279 buildings.							

Asset Management

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
HSBC Global Asset Management (France)	**158,266**	133,392	**66,306**	57,938	**27,991**	16,514	**100**	100
	Profit before tax increase, reflecting higher fees mainly due the equity market. Assets managed and distributed amounted to EUR 87.8 billion compared with EUR 86.5 billion at end 2020. As in 2020, HSBC Global Asset Management (France) win some awards such as: • *Meilleure Gestion Diversifiée sur 5 ans (Mieux Vivre)* • *Meilleure Gestion ('ISR') sur 1 an (Mieux Vivre)* • *Trophée d'Or : gamme Obligation Europe (Le Revenu)* • *Corbeille d'Or Agefi : 2éme place Réseau Bancaire HSBC Continental Europe*							
HSBC Epargne Entreprise (France)	**62,389**	74,022	**27,415**	31,796	**(4,955)**	(4,381)	**100**	100
	HSBC Epargne Entreprise (France) is an investment company, wholly-owned by HSBC Continental Europe, specialising in employee savings & pensions accounts administration for the HSBC Group in France. It has a clientele of 2,100 companies and manages 215,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totaling EUR 4.3 billion as of 31 December 2021, making the Group the seventh-largest employee savings manager in France. Its products are distributed via the HSBC Group distribution network in France, covering the needs of companies of all sizes.							
HSBC REIM (France)	**21,630**	18,130	**12,551**	10,502	**7,049**	6,564	**100**	100
	HSBC REIM (France) is the subsidiary of the Asset Management business specialising in real estate management on behalf of third parties. As of 31 December 2021, the market value of assets under management was EUR 3.4 billion. The main fund managed, Elysées Pierre is a Classic Real Estate Investment Placement Company which celebrated its 35th anniversary in 2021. Its capitalisation of more than EUR 2.5 billion ranks it among the top 10 REITs on the market and the 118 component buildings of its assets are mainly offices in Ile-de-France, one of the deepest and most liquid markets in Europe and in the world. This fund has a return and valuation strategy that results in an internal rate of return ('IRR') over 10 years as at 31 December 2021 at 6.3 per cent. The specialised press regularly praised the management qualities and the long-term performance of the SCPI.							

Insurance

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
HSBC Assurances Vie (France)	**24,163,686**	23,301,030	**972,389**	891,769	**80,745**	63,927	**100**	100
	HSBC Assurances Vie (France) manufactures a wide range of products and services to meet HSBC Group customer's needs (individuals, professionals and companies) in terms of life insurance, pension and protection. In 2021, insurance manufacturing gross written premium on saving stands at EUR 1,579 million (20 per cent up compared to 2020), including EUR 670 million on unit-linked contracts, which account for 44 per cent of new money compared to 39 per cent last year. The net new money was positive for HSBC Continental Europe Retails Network by EUR 48 million in 2021, of which a positive net new money of EUR 361 million related to unit-linked contracts. The life insurance liabilities managed by the insurance company now stand at EUR 23.5 billion compared to EUR 23.2 billion last year. Within these, unit-linked contracts represent EUR 6.2 billion, increased by EUR 1.1 billion compared to 2020, due to the positive net new money and the favourable variation of the fair value of contracts.							

Own investments

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Société Française et Suisse ('SFS')	**9,468**	9,496	**9,465**	9,492	**(27)**	(4)	**100**	100
	Société Française et Suisse has yielded profit loss compared to 2020. The total balance sheet is mainly composed of free cash flow.							
Valeurs Mobilières Elysées	**50,103**	49,830	**49,637**	49,517	**120**	(623)	**100**	100
	Valeurs Mobilières Elysées is a subsidiary in which principal investments are booked under HSBC Continental Europe. These investments include listed midcaps and Private Equity funds. HSBC having decided in 2009 not invest any further in listed midcap shares, Valeurs Mobilières Elysées manages a portfolio of gradually declining listed shares. No new Private Equity investments will be booked under Valeurs Mobilières Elysées. In 2021 Valeurs Mobilières Elysées realized a positive result.							

Investment policy

2016

- Capital decrease of CCF Charterhouse GmbH & Co. Asset Leasing KG, owned up to 99 per cent by HSBC Leasing (France).

  Proceeds: EUR 36.8 million.
- Sale of Visa Europe share to Visa Inc.

  Capital gain: EUR 108 million.

2017

- Investment increase by HSBC Leasing (France), a wholly-owned subsidiary of HSBC Continental Europe, in the joint operation HSBC Middle East Leasing Partnership.

  Cost: USD 100.3 million.

2018

- Acquisition by HSBC Continental Europe of certain assets and liabilities held by HSBC Bank plc Athens Branch.

  Amount of the investment: EUR 1.
- HSBC Continental Europe acquires 100 percent of the capital of HSBC Institutional Trust Services (Ireland) DAC from HSBC Securities Services Holdings (Ireland) DAC, itself a subsidiary of HSBC Bank plc.

  Amount of investment: USD 21.5 million.
- HSBC Continental Europe acquires 100 per cent of the share capital of HSBC Bank Polska S.A. from HSBC Bank plc Paris Branch.

  Amount of the investment: EUR 88.4 million.

2019

- Acquisition by HSBC Continental Europe of certain assets and liabilities held by HSBC Bank plc in the Netherlands, Spain, Ireland, Czech Republic, Italy, Belgium and in Luxembourg.

  Amount of the investment: EUR 370.3 million.

2020

- No material transactions to report.

2021

- No material transactions to report.

Proposed resolutions to the Ordinary General Meeting to be held on 11 March 2022

First resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2021, and the report on corporate governance and the Statutory Auditors' report relating thereto, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

Second resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders, having noted that the year ended 31 December 2021 shows a net result of EUR -1,589,397,396.84, hereby approve the proposed distribution of this net result made by the Board of Directors and resolve to appropriate it as follows:

Net result for the year	EUR -1,589,397,396.84
Plus retained profits	EUR 2,322,037,354.98
Total sum available for distribution	EUR 732,639,958.14

To be distributed as follows:

Retained earnings	EUR 732,639,958.14

In accordance with legal requirements, it is recalled that no dividend has been paid in respect of the three previous financial years.

Third resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2021, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fourth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in article L. 225-40 of said Code.

Fifth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mrs Paule Cellard, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2024.

Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mr Stephen O'Connor, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2024.

Seventh resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mrs Dominique Perrier, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2024.

Eighth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Arnaud Poupart-Lafarge, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2024.

Ninth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Andrew Wild, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2024.

Tenth resolution

Voting under the quorum and majority conditions to transact ordinary business, and noting that the term of office of Mr Lindsay Gordon expires at the end of this meeting, the shareholders hereby elect, to replace him, Mr Eric Strutz as a Director of the Company, for a term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2024.

Eleventh resolution

Voting under the quorum and majority conditions to transact ordinary business, and noting that the term of office of Mr Thierry Moulonguet expires at the end of this meeting, the shareholders hereby elect, to replace him, Mr Michaël Trabbia as a Director of the Company, for a term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2024.

Twelth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby note that the term of office of Mr Philippe Houzé expires at the end of this meeting.

Thirteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby note that the term of office of Mrs Brigitte Taittinger expires at the end of this meeting.

Fourteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, in accordance with article L. 511-73 of the French Monetary and Financial Code, the shareholders hereby issue a favourable opinion on the aggregate amount of compensation of all kinds paid in 2021 to categories of personnel as referred to in Article L. 511-71 of the French Monetary and Financial Code having a significant impact on risks, which amounts to EUR 75,040,340.

Fifteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby resolve to allocate the sum of 1,100,000 euros to the Board of Directors as remuneration for its activity, for the current financial year and for all subsequent financial years until otherwise decided.

Sixteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

Information on HSBC Continental Europe and its share capital

Information on the company

Name

HSBC Continental Europe. New name of HSBC France since 1 December 2020.

Commercial name

HSBC and, for the Private Banking business, HSBC Private Banking.

Date of incorporation

1894.

Registered office

38 avenue Kléber – 75116 Paris – France.

Legal Form

Société Anonyme incorporated under the laws of France, governed notably by the French Commercial Code. The company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

Term

The company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate purpose (article 3 of the Articles of Association of HSBC Continental Europe)

The company's corporate purpose is the transaction in all countries of any and all banking, finance, lending, guarantee, trading, brokerage or fee-earning business together with the provision of any and all investment services and related services within the meaning of articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, and more generally, to conduct within the limits permitted by law any and all commercial, industrial or agricultural, securities or real estate, financial or other operations as well as to provide any and all services directly or indirectly connected with or which may facilitate the achievement of the foregoing object.

Trade and companies Register, APE code and LEI

775 670 284 RCS Paris – APE 6419Z.

LEI: F0HUI1NY1AZMJMD8LP67.

Legal and regulatory framework

Subject to the laws and regulations relating to credit institutions, including articles in the French Monetary and Financial Code applicable to them, the company is governed by commercial law, including articles L. 210-1 and following of the French Commercial Code and its Articles of Association.

HSBC Continental Europe is a credit institution licensed as a bank. As such, the company may conduct all banking operations. It is, moreover, authorised to perform any services or related investment mentioned in articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, with the exception of operating a multilateral trading facility. In its capacity as provider of investment services, it is subject to the regulations applicable to them under the supervision of the *Autorité des marchés financiers*.

It is particularly subject to compliance with a number of prudential rules and controls by the *Autorité de contrôle prudentiel et de résolution* and the European Central Bank. Its Senior Management and all the people it employs are bound by professional secrecy, violation of which is punishable by law. It is also an insurance broker.

Documents and information on display

Any person requiring additional information on the HSBC Continental Europe group may, without commitment, request documents by mail from:

HSBC Continental Europe – 38 avenue Kléber, 75116 Paris, France.

The Articles of Association of the Company can be found in the 'About HSBC' section of the HSBC Continental Europe website www.hsbc.fr.

The information made available on hsbc.fr website are not part of the Universal Registration Document, unless the informations are included by reference in the current Registration Document.

Financial year

From 1 January to 31 December.

Distribution of profits

A minimum of 5 per cent of the net profit for the year, less any prior year losses, is transferred to the legal reserve until such time as it has reached one tenth of the company's share capital and at any time after that should it fall back below the minimum requirement.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the company's share capital, no distribution may be made if total shareholders' funds are, or would as a result, become lower than the amount of the company's share capital plus any non-distributable reserves.

By way of derogation to the provisions of this article, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

Form of shares

Shares have to be registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights

Each fully paid up share entitles the holder to one vote.

Transfer of shares

The transfer of shares takes place by way of a transfer from one account to another.

There are no restrictions on disposals of shares or negotiable securities giving access to the share capital in cases of inheritance or liquidation of matrimonial property, or on disposals to a spouse, descendant or ascendant.

Any other disposals or transfers of shares or negotiable securities giving access to the capital, including between shareholders, whether free of charge or for valuable consideration, whether the said disposals or transfers take place by way of donation, exchange, disposal, capital contribution, merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be made by the Board of Directors, by a majority of the Directors present or represented. The transferor shall be entitled to vote, if he is a Director. The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by article 1843-4 of the French Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it to the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by article 1843-4 of the French Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by article 1843-4 of the French Civil Code.

Custodian and financial service

CACEIS Corporate Trust.

History of the company

1894: The *Banque Suisse et Française ('BSF')* is founded. It will become the *Crédit Commercial de France ('CCF')*.

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1994: Centenary of CCF.

2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

2002: Crédit Commercial de France changes its legal name to CCF.

2005: CCF becomes HSBC France and certain of its subsidiaries change their legal name and adopt the HSBC brand. HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie constitute the new HSBC network.

2008: Disposal by HSBC France of its regional banking subsidiaries (*Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest*).

2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

2011: Merger of HSBC Private Bank France with HSBC France.

2013: HSBC France acquires HSBC Assurances Vie (France).

2017-2018: Creation of branches in Greece, the United Kingdom, Belgium, Luxembourg, Ireland, Italy, Poland, the Czech Republic, the Netherlands and Spain.

January 2018: Acquisition of certain assets and liabilities from the HSBC Bank plc branch in Greece and launch of the activities of the HSBC France branch in Greece.

August 2018: Acquisition of HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC.

February 2019: Acquisition of certain assets and liabilities from the HSBC Bank plc branches in Belgium, Ireland, Italy, the Czech Republic, the Netherlands and Spain and launch of the activities of the HSBC France branches in those countries.

March 2019: Acquisition of certain assets and liabilities from the HSBC Bank plc branch in Luxembourg and launch of the activities of the HSBC France branch in this country.

April 2019: Merger of HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC with HSBC France.

May 2019: Creation of a branch in Sweden and launch of the activities in this branch in October 2019.

December 2020: HSBC France becomes HSBC Continental Europe and transfers its registered office 38 avenue Kléber 75116 Paris.

Material contracts

HSBC Continental Europe currently has no material contracts, other than those concluded as part of the normal course of its business, that gives any member of the Group a right or obligation having a material impact on the issuer's ability to fulfil its obligations to holders of issued securities.

Information on the share capital

At 31 December 2021, the share capital amounted to EUR 491,155,980 divided into 98,231,196 fully paid up shares, each with a nominal value of EUR 5.

Movements in share capital

	Number of shares	Share capital in euros	Share premium in euros
At 1 Jan 2021	**98,231,196**	**491,155,980**	**2,137,326,990.33**
Increase (Reduction) during the year	**—**	**—**	**—**
At 31 Dec 2021	**98,231,196**	**491,155,980**	**2,137,326,990.33**
At 1 Jan 2020	98,231,196	491,155,980	2,137,326,990.33
Increase (Reduction) during the year	—	—	—
At 31 Dec 2020	98,231,196	491,155,980	2,137,326,990.33
At 1 Jan 2019	73,316,988	366,584,940	475,040,848.70
Increase (Reduction) during the year	24,914,208	124,571,040	1,662,286,141.63
At 31 Dec 2019	98,231,196	491,155,980	2,137,326,990.33
At 1 Jan 2018	67,437,827	337,189,135	16,139,054.64
Increase (Reduction) during the year	5,879,161	29,395,805	458,901,794.06
At 31 Dec 2018	73,316,988	366,584,940	475,040,848.70
At 1 Jan 2017	67,437,827	337,189,135	16,139,054.64
Increase (Reduction) during the year	—	—	—
At 31 Dec 2017	67,437,827	337,189,135	16,139,054.64

Ownership of share capital and voting rights at 31 December 2021

HSBC Bank plc has owned 99.99 per cent of the share capital and voting rights since 31 October 2000. This percentage has not varied since then. HSBC Bank plc is a wholly-owned subsidiary of HSBC Holdings plc, a company quoted in London, Hong Kong, New York and Bermuda.

Dividend and payout policy

	2021	2020	2019	2018	2017
Number of shares at 31 December	**98,231,196**	98,231,196	98,231,196	73,316,988	67,437,827
Average number of shares outstanding during the year	**98,231,196**	98,231,196	92,571,906	69,531,366	67,437,827
EPS[1]	**EUR 2.74**	EUR (10.43)	EUR (0.41)	EUR (0.24)	EUR 2.63
Net dividend	**—**	—	—	—	EUR 1.66
Exceptional dividend	**—**	—	—	—	EUR 4.45
Dividend + tax credit	**—**	—	—	—	—
Payout[2]	**—**	—	—	—	232.3%

1 *Calculated on the weighted average number of shares outstanding after deducting own shares held.*
2 *Dividend paid as a percentage of reported earnings.*

At the Annual General Meeting to be held on 11 March 2022, the Board will propose not to distribute a dividend in respect of year 2021.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Persons responsible for the Universal Registration Document and for auditing the financial statements

Person responsible for the Universal Registration Document

Mr Andrew Wild, Chief Executive Officer

Statement by the person responsible for the Universal Registration Document

I certify, that the information contained in this Universal Registration Document is, to the best of my knowledge, true and accurate and contains no omission likely to affect its meaning.

I certify, to the best of my knowledge, that the accounts have been prepared in accordance with the relevant accounting standards and give a fair view of assets and liabilities, financial position and result of the company and all the entities included in the consolidation, and that the Management Report on pages 13 to 22 presents a fair view of the business performance, results and financial position of the company and of all the undertakings included in the consolidation scope, and describes the principal risks and uncertainties to which they are exposed.

Paris, 23 February 2022

Andrew Wild, CEO

Persons responsible for auditing the financial statements

Incumbents	Date first appointed	Date re-appointed	Date term ends
PricewaterhouseCoopers Audit[1]	2015	2018	2024
Represented by Agnès Hussherr[2] 63, rue de Villiers 92200 Neuilly-sur-Seine			
BDO Paris[3,4]	2007	2018	2024
Represented by Arnaud Naudan[5] 43-47, avenue de la Grande Armée 75116 Paris			

1 *Member of the* Compagnie Régionale des Commissaires aux comptes of Versailles.
2 *PricewaterhouseCoopers Audit represented by Agnès Hussherr as of financial year 2020.*
3 *Member of the* Compagnie Régionale des Commissaires aux comptes of Paris.
4 *Previous corporate name: BDO Paris Audit & Advisory*
5 *BDO Paris represented by Arnaud Naudan as of financial year 2021.*

Statutory Auditors' fees paid in 2021 within the HSBC Continental Europe group are available in Note 6 to the consolidated financial statements on page 201.

Cross-reference table

The following cross-reference table refers to the main headings required by the European regulation 2017/1129 (Annex I and Annex II) implementing the directive known as 'Prospectus' and to the pages of the Universal Registration Document 2020 D.21-0075.

	Sections of Annex I of the EU Regulation 2017/1129	Pages in 2020 Universal Registration Document	Pages in this 2021 Universal Registration Document
1	**Persons responsible, third party information, experts' reports and competent authority approval**		
1.1 & 1.2	Persons responsible	page 280	page 289
1.3	Experts' reports	N/A	N/A
1.4	Third party information	N/A	N/A
1.5	Competent authority approval	N/A	N/A
2	**Statutory auditors**	page 281	page 290
3	**Risk factors**	pages 80 to 163	pages 87 to 174
4	**Information about the issuer**	page 277	page 286
5	**Business overview**		
5.1	Principal activities	pages 4 to 20 and 240	pages 4 to 21 and 247
5.2	Principal markets	pages 4 to 20 and 240	pages 4 to 21 and 247
5.3	Important events	pages 182 to 183, 240 to 241	pages 193 to 194, 247 to 248
5.4	Strategy and objectives	pages 4 to 12	pages 4 to 12
5.5	Potential dependence	N/A	N/A
5.6	Founding elements of any statement by the issuer concerning its position	pages 4 and 20	pages 4 and 21
5.7	Investments	pages 227 to 230, 272 to 275, 284 to 285	pages 235 to 237, 280 to 283, 293 to 294
6	**Organisational structure**		
6.1	Brief description of the group	pages 3 to 21, 263 to 264 and 272 to 275	pages 3 to 22, 271 to 272 and 280 to 283
6.2	Issuer's relationship with other group entities	pages 272 to 274	pages 280 to 282
7	**Operating and financial review**		
7.1	Financial condition	pages 165, 167, 238 to 239	pages 176, 178, 245 to 246
7.2	Operating results	pages 13 to 20, 165 and 238	pages 13 to 21, 176 and 245
8	**Capital resources**		
8.1	Issuer's capital resources	pages 169 and 255	pages 180 and 263
8.2	Sources and amounts of the issuer's cash flows	page 168	page 179
8.3	Borrowing requirements and funding structure	pages 80, 129 to 130, 132 to 135	pages 87, 142 to 144, 146 to 148
8.4	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect the issuer's operations	N/A	N/A
8.5	Sources of funds needed	N/A	N/A
9	**Regulatory environment**	pages 11 to 12, 142	pages 12 and 155
10	**Trend information**	pages 4 to 5, 8 and 9	pages 4 to 7
11	**Profit forecasts or estimates**	N/A	N/A
12	**Administrative, management and supervisory bodies and senior management**		
12.1	Administrative and management bodies	pages 23 to 31	pages 24 to 32
12.2	Administrative and management bodies conflicts of interests	page 39	pages 40 to 41
13	**Remuneration and benefits**		
13.1	Amount of remuneration paid and benefits in kind granted	pages 40 to 49, 186 to 190	pages 41 to 51, 197 to 201
13.2	Total amounts set aside or accrued by the issuer or its subsidiaries to provide for pension, retirement or similar benefits	pages 40 to 49, 186 to 190, 255 to 256	pages 41 to 51, 197 to 201, 263 to 264
14	**Board practices**		
14.1	Date of expiration of the current term of office	pages 23 to 31	pages 24 to 32
14.2	Information about members of the administrative, management or supervisory bodies' service contracts	N/A	N/A
14.3	Information about the issuer's audit committee and remuneration committee	pages 33 to 34, 36 to 37	pages 35 to 36, 38 to 39
14.4	Corporate governance regime	page 23	page 23
14.5	Potential material impacts on the corporate governance	N/A	N/A
15	**Employees**		
15.1	Number of employees	page 186	page 197
15.2	Shareholdings and stock options	pages 43 to 44	pages 44 to 45
15.3	Arrangements involving the employees in the capital of the issuer	N/A	N/A
16	**Major shareholders**		
16.1	Shareholders holding more than 5 per cent of the share capital or voting rights	pages 277 to 279	pages 286 to 288
16.2	Different voting rights	page 277	page 286
16.3	Control of the issuer	pages 23 to 24, 281	pages 24 to 25, 290
16.4	Arrangements, known to the issuer, which may at a subsequent date result in a change in control of the issuer	N/A	N/A
17	**Related party transactions**	pages 50 to 52, 225 to 226, 227 to 230, 263 to 264	pages 52 to 53, 233 to 234, 235 to 237, 271 to 272

18	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information	pages 20, 164 to 230, 237 to 264, 283	pages 21, 175 to 237, 244 to 272, 292
18.2	Interim and other financial information	N/A	N/A
18.3	Auditing of historical annual financial information	pages 231 to 236 and 265 to 269	pages 238 to 243 and 273 to 277
18.4	Pro forma financial information	N/A	N/A
18.5	Dividend policy	pages 192 and 279	pages 203 and 288
18.6	Legal and arbitration proceedings	pages 149 to 151, 224 to 225, 261 to 262	pages 162 to 163, 232 to 233, 269 to 270
18.7	Significant change in the issuer's financial position	pages 19, 226 and 262	pages 20, 234 to 235 and 270
19	**Additional information**		
19.1	Share capital	pages 222, 255 and 279	pages 230 to 231, 262 and 288
19.2	Memorandum and Articles of Association	pages 277 to 279	pages 286 to 288
20	**Material contracts**	page 279	page 288
21	**Documents available**	page 277	page 286

Sections of Annex II of the EU Regulation 2017/1129		Pages in 2020 Universal Registration Document	Pages in this 2021 Universal Registration Document
1	**Information to be disclosed about the issuer**	page 2	page 2

According to article 28 of the European Regulation 809/2004, are included by reference in this Registration Document:

- the consolidated financial statements for the year ended 31 December 2019 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 155 to 221 and 222 to 225 of reference document D.20-0071 filed with the AMF on 19 February 2020; the information can be found here : https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2019/annual-results/hsbc-france/200219-hbfr-ara-2019-fr.pdf
- the consolidated financial statements for the year ended 31 December 2020 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 164 to 230 and 231 to 236 of reference document D.21-0075 filed with the AMF on 24 February 2021; the information can be found here : https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2020/annual-results/hsbc-continental-europe/210224-hbce-urd-2020-fr.pdf

These documents are available on the website www.hsbc.fr and on that of the *Autorité des marchés financiers* www.amf-france.org.

Anyone wishing to obtain additional information on the HSBC Continental Europe group can, without obligation, request the documents by mail:

HSBC Continental Europe

38 Avenue Kléber

75116 Paris

France

This Registration Document includes the annual financial report:	2021
Parent company financial statements	pages 244 to 272
Consolidated financial statements	pages 175 to 237
Management report Refer to the Management report cross ref table Statement by person responsible	pages 292 and 289
Statutory Auditors' report	pages 238 to 243 and 273 to 277

Cross table on Management report:	
Analyses of the activity, results and financial situation	pages 4 to 22 and 247
Risk factors	pages 87 to 142 and 145 to 174
Capital and Leverage Management	pages 143 to 144
Authorities to increase the share capital	page 288
Corporate, social and environmental responsibility	pages 54 to 86
Corporate governance report	pages 23 to 51
Remuneration policy compensation and other advantages to the executive Director	pages 41 to 51
Mandates and functions of the Executive Directors	pages 24 to 31
Activities of the subsidiaries and Investment policy	pages 235 to 237 and 280 to 283
Five year highlights	pages 21 and 278
Information on supplier payable amounts schedule	page 22
Other legal documents relating to the Annual General Meeting to be held on 11 March 2022	pages 284 to 285
Information on HSBC Continental Europe and its share capital	pages 286 to 288

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HSBC network in France

HSBC Continental Europe

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