HSBC Continental Europe

Pillar 3 Disclosures at 31 December 2021

HSBC

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

Tables

Introduction

Table 1: Key metrics template ('KM1')

		At		
		31 Dec 2021	30 Jun 2021	31 Dec 2020[1]
		€m	€m	€m
	Available own funds (amounts)			
1	Common Equity Tier 1 ('CET1') capital	**5,742**	5,681	5,798
2	Tier 1 capital	**6,492**	6,431	6,548
3	Total capital	**7,898**	7,837	7,972
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	**47,795**	47,702	46,113
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)			
5	Common Equity Tier 1 ratio	**12.0**	11.9	12.6
6	Tier 1 ratio	**13.6**	13.5	14.2
7	Total capital ratio	**16.5**	16.4	17.3
	Additional own funds requirements to address risks other than the risk of excessive leverage (%) (as a percentage of risk-weighted exposure amount) (%)			
EU-7a	Additional own funds requirements to address risks other than the risk of excessive leverage	**3.0**	3.0	3.0
EU-7b	– *of which: to be made up of CET1 capital (percentage points)*	***1.7***	*1.7*	*1.7*
EU-7c	– *of which: to be made up of Tier 1 capital (percentage points)*	***2.3***	*2.3*	*2.3*
EU-7d	Supervisory review and evaluation process ('SREP') own funds requirements	**11.0**	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	2.5
9	Institution-specific countercyclical capital buffer	**0.03**	0.02	0.02
11	Combined buffer requirement	**2.5**	2.5	2.5
EU-11a	Overall capital requirements	**13.5**	13.5	13.5
12	CET1 available after meeting the total SREP own funds requirements	**1.0**	0.9	1.6
	Leverage ratio			
13	Total exposure measure	**154,604**	150,461	154,908
14	Leverage ratio (%)	**4.2**	4.3	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**	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**	3.4	
	Liquidity Coverage Ratio ('LCR')[3]			
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	**47,496**	46,367	42,259
EU-16a	Cash outflows – Total weighted value	**40,471**	37,428	34,198
EU-16b	Cash inflows – Total weighted value	**7,048**	6,488	6,793
16	Total net cash outflows (adjusted value)	**33,424**	30,940	27,405
17	Liquidity coverage ratio (%)	**142**	150	154
	Net Stable Funding Ratio ('NSFR')[2]			
18	Total available stable funding	**85,698**	82,827	
19	Total required stable funding	**65,759**	60,653	
20	NSFR ratio (%)	**130**	137	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.*
3 *Balances have been revised to reflect 12-month averages as per CRR Art. 447(i).*

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

		At 31 Dec 2021		At 31 Dec 2020	
		RWAs	Capital requirement[1]	RWAs	Capital requirement[1]
		€m	€m	€m	€m
1	**Credit risk (excluding CCR)[2]**	**35,449**	**2,836**	35,857	2,868
2	– standardised approach	**8,251**	**660**	8,121	664
3	– foundation IRB approach	**2,099**	**168**	3,252	260
4	– slotting approach	**—**	**—**	—	—
5	– equities under the simple riskweighted approach	**979**	**78**	1,299	104
4	– advanced IRB approach	**24,120**	**1,930**	23,185	1,855
6	**Counterparty credit risk**	**4,434**	**355**	3,736	298
7	– standardised approach[3]	**1,121**	**90**	1,102	88
8	– internal model method ('IMM')	**2,372**	**190**	2,176	174
EU-8a	– exposures to a CCP	**48**	**4**	65	5
EU-8b	– credit valuation adjustment – ('CVA')	**893**	**71**	393	31
9	– other CCR	**—**	**—**		
15	**Settlement risk**	**0.5**	**—**	—	—
16	**Securitisation exposures in the non-trading book**	**570**	**46**	574	46
17	– internal ratings-based approach ('SEC-IRBA')	**—**	**—**	—	—
18	– external ratings-based approach ('SEC-ERBA') (including IAA)	**315**	**25**	508	41
19	– standardised approach ('SEC-SA')	**255**	**20**	66	5
20	**Position, foreign exchange and commodities risks (Market risk)**	**3,784**	**303**	2,663	213
21	– standardised approach	**477**	**38**	339	27
22	– internal model approach	**3,307**	**265**	2,324	186
EU-22a	**Large exposures**	**—**	**—**	—	—
23	**Operational risk**	**3,557**	**285**	3,283	263
EU-23a	– basic indicator approach	**—**	**—**	—	—
EU-23b	– standardised approach	**3,557**	**285**	3,283	263
EU-23c	– advanced measurement approach	**—**	**—**	—	—
29	**Total**	**47,795**	**3,824**	46,113	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.*
3 *The RWA amount reported at 31 December 2020 and December 2021 includes both derivatives and Security Financing Transactions (SFTs) on the non-modelled portfolio. The RWA amount reported at 31 December 2021 corresponds to new SA CCR approach following the implementation of the EU Regulation N°2019/876 (CRR2). The RWA amount presented at 31 December 2020 is computed using the predecessor Current Exposure Methodology ('CEM').*

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

		Total RWAs	Total own funds requirements
		€m	€m
1	**RWAs at 31 Dec 2020**	**26,437**	**2,115**
2	Asset size	**(362)**	**(29)**
3	Asset quality	**153**	**12**
4	Model updates	**80**	**6**
5	Methodology and policy	**(89)**	**(7)**
6	Acquisitions and disposals	**—**	**—**
7	Foreign exchange movements	**—**	**—**
8	Other	**—**	**—**
9	**RWAs at 30 Dec 2021**	**26,219**	**2,098**

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

		Total RWAs	Total own funds requirements
		€m	€m
1	**RWAs at 31 Dec 2020**	**2,176**	**174**
2	Asset size	**115**	**9**
3	Asset quality	**6**	**—**
4	Model updates (IMM only)	**—**	**—**
5	Methodology and policy (IMM only)	**76**	**6**
6	Acquisitions and disposals	**—**	**—**
7	Foreign exchange movements	**—**	**—**
8	Other	**—**	**—**
9	**RWAs at 31 Dec 2021**	**2,372**	**190**

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

		VaR	SVaR	IRC	Other	Total RWAs	Total own funds requirements
		€m	€m	€m	€m	€m	€m
1	**RWAs at 31 Dec 2020**	444	964	350	566	2,324	186
1a	Regulatory adjustment	—	—	—	—	—	—
1b	RWAs at the previous quarter-end (end of the day)	444	964	350	566	2,324	186
2	Movement in risk levels	(26)	326	93	79	473	38
3	Model updates/changes	87	268	22	134	511	41
4	Methodology and policy	—	—	—	—	—	—
5	Acquisitions and disposals	—	—	—	—	—	—
6	Foreign exchange movements	—	—	—	—	—	—
7	Other	—	—	—	—	—	—
8a	RWAs at the end of the disclosure period (end of the day)	—	—	—	—	—	—
8b	Regulatory adjustment	—	—	—	—	—	—
8	**RWAs at 30 Dec 2021**	505	1,558	465	779	3,307	265

Regulatory framework for disclosures

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

At the consolidated HSBC Continental Europe level, we calculated capital for prudential regulatory reporting purposes throughout 2021 using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the EU in the amended Capital Requirements Regulation and Directive, collectively known as CRR/CRD.

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

Pillar 3 disclosures

Purpose

The information contained in this document is for HSBC Continental Europe. It should be read in conjunction with HSBC Continental Europe's *Universal Registration Document 2021*.

These disclosures are governed by the HSBC Group's disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. HSBC Continental Europe document has been subject to internal review process in accordance with its financial reporting and governance processes.

Basis of preparation

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

In our disclosures, we provide comparative figures for the previous year to facilitate analysis. Key ratios and figures are reflected throughout the *Pillar 3 2021 Disclosures* and are also available on page 3 of the HSBC Continental Europe's *Universal Registration Document 2021*. Where disclosures have been enhanced or are new, we do not generally restate or provide prior year comparatives.

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

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

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

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the *Universal Registration Document 2021* or other location.

Governance arrangements are detailed in the report on Corporate governance on pages 23 to 51 of the HSBC Continental Europe's *Universal Registration Document 2021.*

Regulatory developments

Covid-19

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

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

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;

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

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

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

(v) the retention of the exemptions from the 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.

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.

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. Following this, 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.

Significant events

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.

The other significant events are detailed in the Note 1 'significant events during the year' of the consolidated Financial Statements section on page 193 of the HSBC Continental Europe's *Universal Registration Document 2021.*

Linkage to the Universal Registration Document 2021

Basis of consolidation

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

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

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

	Ref †	Accounting balance sheet €m	De-consolidation of insurance/ other entities €m	Regulatory balance sheet €m
Assets				
Cash and balances at central banks		38,063	–	38,063
Items in the course of collection from other banks		156	–	156
Trading assets		12,921	–	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		13,345	(13,020)	325
Derivatives		39,634	(41)	39,593
Loans and advances to banks		6,832	(1,019)	5,813
Loans and advances to customers		59,612	470	60,082
– *of which:*				
impairment allowances on IRB portfolios		–	–	–
impairment allowances on standardised portfolios		–	–	*(158)*
Reverse repurchase agreements – non-trading		20,487	–	20,487
Financial investments		16,110	(10,807)	5,303
Assets held for sale		2	–	2
Prepayments, accrued income and other assets		14,538	(343)	14,195
Current tax assets		162	(27)	135
Interests in associates and joint ventures		2	–	2
Goodwill and intangible assets	e	763	(677)	86
Deferred tax assets	f	37	170	207
Total assets at 31 December 2021		222,664	(25,294)	197,370
Liabilities and equity				
Deposits by banks		18,548	(20)	18,528
Customer accounts		70,144	69	70,213
Repurchase agreements – non-trading		8,731	–	8,731
Items in the course of transmission to other banks		280	–	280
Trading liabilities		16,247	–	16,247
Financial liabilities designated at fair value		13,733	971	14,704
Derivatives		35,895	(12)	35,883
Debt securities in issue		7,414	–	7,414
Accruals, deferred income and other liabilities		18,122	(1,702)	16,420
– *of which: retirement benefit liabilities*		*126*	*(3)*	*123*
Current tax liabilities		66	(1)	65
Liabilities under insurance contracts		23,698	(23,698)	–
Provisions		234	(5)	229
Deferred tax liabilities	f	–	4	4
Subordinated liabilities		1,876	–	1,876
– *of which:*				
perpetual subordinated debt included in tier 2 capital	j	*16*	–	*16*
term subordinated debt included in tier 2 capital	j	*1,860*	–	*1,860*
Total liabilities at 31 December 2021		214,988	(24,394)	190,594
Called up share capital	a	491	–	491
Share premium account	a	2,137	–	2,137
Other equity instruments	i	750	–	750
Other reserves	b, c, d, g	1,653	(27)	1,626
Retained earnings	b, c, d, h	2,636	(873)	1,763
Total shareholders' equity		7,667	(900)	6,767
Non-controlling interests		9	–	9
Total equity at 31 December 2021		7,676	(900)	6,776
Total liabilities and equity at 31 December 2021		222,664	*(25,294)*	*197,370*

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

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

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

Capital and Leverage

Capital management

Approach and policy

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

HSBC Continental Europe manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2021, HSBC Continental Europe complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, HSBC Continental Europe manages its capital within the context of an annual capital plan which is approved by the Board and which determines the appropriate amount and mix of capital. Complementing this capital plan regular forecasts of capital, leverage, RWAs positions are produced throughout the year.

In order to comply with CRR regarding internal TLAC requirements, HSBC Continental Europe issued two series of Senior Non Preferred (SNP) bonds in June 2021 and two series of SNP bonds in December 2021.

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

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

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

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

Stress testing

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

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

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

Risks to capital

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

Further explanation on model risk can be found in Risk section on pages 87 and 174 of the HSBC Continental Europe's *Universal Registration Document 2021*.

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

Risk-weighted asset targets

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

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

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

Capital generation

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

Overview of regulatory capital framework

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

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

Common Equity Tier 1 ('CET1')

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

Additional Tier 1 capital ('AT1')

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

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

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

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

Tier 2 capital ('T2')

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

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

These instruments or subordinated loans comprise dated loan capital repayable at par on maturity and must have an original maturity of at least five years.

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

For regulatory purposes, it is a requirement that Tier 2 instruments are amortised on a straight line basis in their final five years to maturity, thus reducing the amount of capital that is recognised for regulatory purposes.

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

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

			At	
			31 Dec 2021	31 Dec 2020[1]
Ref*		Ref †	**€m**	€m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	a	**2,628**	2,628
	– share premium account	a	**2,137**	2,137
2	Retained earnings	b	**2,458**	3,482
3	Accumulated other comprehensive income (and other reserves)	c	**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	d	**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)	e	**(79)**	(85)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	f	**(114)**	—
11	Fair value reserves related to gains or losses on cash flow hedges	g	**(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	h	**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	i	**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	j	**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-56b	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 (%)		**7.5**	8.1
	Amounts below the threshold for deduction (before risk weighting)			

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

			At	
			31 Dec 2021	31 Dec 2020[1]
Ref*		Ref †	**€m**	€m
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)	f	**88**	125

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

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

1 *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 in Note 1 'Significant events during the year' of the HSBC Continental Europe's *Universal Registration Document 2021*.

A detailed breakdown of the HSBC Continental Europe's CET1 capital, AT1 capital, Tier 2 capital can be viewed in the Regulatory Capital Instruments 31 December 2021 which is available on HSBC website https://www.hsbc.com/investors/fixed-income-investors/regulatory-capital-securities.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total on- and weighted off-balance sheet exposures, 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.

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

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

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

The description of the processes used to manage the risk of excessive leverage is detailed in section Risk Appetite in page 87 of the HSBC Continental Europe's *Universal Registration Document 2021*.

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

		At	
		31 Dec 2021	31 Dec 2020[1]
Ref*		**€m**	€m
1	Total assets as per published financial statements	**222,664**	237,099
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(25,294)**	(23,851)
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)		
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	**(38,063)**	(29,462)
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure)	**–**	
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**(415)**	(326)
7	Adjustment for eligible cash pooling transactions		
8	Adjustments for derivative financial instruments	**(29,771)**	(55,529)
9	Adjustment for securities financing transactions ('SFTs')	**(2,045)**	3,198
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**32,574**	26,337
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	**–**	
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure)	**–**	
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure)	**(1,818)**	(1,691)
12	Other adjustments[2]	**(3,229)**	(867)
13	**Leverage ratio total exposure measure**	**154,604**	154,908

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.*

2 *31 December 2021 includes the impact of the exclusion of guaranteed parts of exposures arising from export credit applied as per Point (f) of Article 429a(1) CRR following implementation of CRR2 in June 2021.*

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

		At[1]	
		31 Dec 2021	31 Dec 2020[2]
Ref*		€m	€m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)[3]	**98,281**	
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**—**	
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(8,919)**	
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	**—**	
5	(General credit risk adjustments to on-balance sheet items)	**—**	
6	(Asset amounts deducted in determining Tier 1 capital)	**(1,149)**	
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**88,213**	90,071
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	**6,031**	
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	**—**	
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**14,120**	
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	**—**	
EU-9b	Exposure determined under Original Exposure Method	**—**	
10	(Exempted CCP leg of client-cleared trade exposures) ('SA-CCR')	**(2,080)**	
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	**—**	
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original exposure method)	**—**	
11	Adjusted effective notional amount of written credit derivatives	**2,492**	
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(1,824)**	
13	**Total derivatives exposures**	**18,740**	15,471
Securities financing transaction ('SFT') exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**86,386**	
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(68,526)**	
16	Counterparty credit risk exposure for SFT assets	**582**	
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	**—**	
18	**Total securities financing transaction exposures**	**18,443**	24,721
19	Off-balance sheet exposures at gross notional amount	**76,570**	
20	(Adjustments for conversion to credit equivalent amounts)	**(43,996)**	
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	**—**	
22	**Off-balance sheet exposures**	**32,574**	26,337
Excluded exposures			
EU-22a	(Exposures excluded from the leverage ratio total exposure measure)	—	
EU-22b	(Exposures exempted (on- and off-balance sheet))	**(1,818)**	
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)[4]	**(1,548)**	
EU-22g	(Excluded excess collateral deposited at triparty agents)	—	
EU-22h	(Excluded CSD related services of CSD/institutions)	—	
EU-22i	(Excluded CSD related services of designated institutions)	—	
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	—	
EU-22k	**(Total exempted exposures)**	**(3,366)**	(1,691)
Capital and total exposure measure			
23	**Tier 1 capital**	**6,492**	6,548
24	**Leverage ratio total exposure measure**	**154,604**	154,908
Leverage ratio			
25	**Leverage ratio (%)**	**4.2**	4.2
EU-25	Leverage ratio (without the adjustment due to excluded exposures of public development banks – Public sector investments) (%)	**—**	
25a	**Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)**	**3.4**	3.6
26	Regulatory minimum leverage ratio requirement (%)	**3.4**	
EU-26	Additional leverage ratio requirements (%)	**—**	
27	Required leverage buffer (%)	**—**	
Choice on transitional arrangements and relevant exposures		**3.4**	
EU-27	Choice on transitional arrangements for the definition of the capital measure	**Fully phased**	
Disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	**25,695**	
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**17,860**	
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**162,439**	
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**200,502**	

Table 9: Leverage ratio common disclosure ('LRCom')[1] (continued)

		At	
		31 Dec 2021	31 Dec 2020[2]
Ref*		**€m**	€m
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) (%)	**4.0**	
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) (%)	**3.2**	

* *The references identify the lines prescribed in the EBA template, when applicable.*
1 *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.*
2 *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.*
3 *Includes the temporary exemption of central bank exposures.*
4 *31 December 2021 includes the impact of the exclusion of guaranteed parts of exposures arising from export credit applied as per Point (f) of Article 429a(1) CRR following implementation of CRR2 in June 2021.*

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

		At	
		31 Dec 2021	31 Dec 2020
Ref*		**€m**	€m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**94,916**	103,598
EU-2	Trading book exposures	**22,474**	30,246
EU-3	Banking book exposures, of which:	**72,442**	73,353
EU-4	Covered bonds	**—**	—
EU-5	Exposures treated as sovereigns	**7,375**	10,285
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**35**	22
EU-7	Institutions	**820**	1,659
EU-8	Secured by mortgages of immovable properties	**21,593**	21,342
EU-9	Retail exposures	**3,460**	4,131
EU-10	Corporate	**32,062**	29,915
EU-11	Exposures in default	**1,213**	125
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**5,885**	5,874

Capital buffers

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

National macroprudential authorities set the countercyclical buffer rate usually within a 0-2.5 per cent with rate increases announced at least a year in advance under normal circumstances. France countercyclical buffer rate was kept at 0 per cent throughout 2021. The institution countercyclical buffer remained at a low level at 0.03 per cent.

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

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	###	*Of which: General credit exposures*	*Of which: General trading book*	*Of which: Securiti-sation exposures*	Total	Own funds require-ments weights	CCyB rate
Country	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**%**	**%**
Algeria	**0.2**	**0.6**	**—**	**—**	**—**	***0.1***	**—**	**—**	**0.1**	**—**	**—**
Armenia	**35.0**	**—**	**—**	**—**	**—**	***2.8***	**—**	**—**	**2.8**	**0.1**	**—**
Australia	**0.3**	**0.9**	**—**	**—**	**—**	***0.1***	**—**	**—**	**0.1**	**—**	**—**
Austria	**20.0**	**34.1**	**—**	**—**	**—**	***3.8***	**—**	**—**	**3.8**	**0.1**	**—**
Azerbaijan	**55.6**	**37.6**	**—**	**—**	**—**	***0.5***	**—**	**—**	**0.5**	**—**	**—**
Bahrain	**1.8**	**4.6**	**—**	**—**	**—**	***0.1***	**—**	**—**	**0.1**	**—**	**—**
Bangladesh	**—**	**24.9**	**—**	**—**	**—**	***0.2***	**—**	**—**	**0.2**	**—**	**—**
Barbados	**—**	**28.7**	**—**	**—**	**—**	***1.5***	**—**	**—**	**1.5**	**0.1**	**—**
Belgium	**30.6**	**580.0**	**—**	**—**	**—**	***29.5***	**—**	**—**	**29.5**	**1.1**	**—**
Bermuda	**—**	**187.8**	**—**	**—**	**—**	***6.8***	**—**	**—**	**6.8**	**0.3**	**—**
Brazil	**0.1**	**181.3**	**—**	**—**	**—**	***3.1***	**—**	**—**	**3.1**	**0.1**	**—**
Bulgaria	**0.1**	**7.5**	**—**	**—**	**—**	***0.1***	**—**	**—**	**0.1**	**—**	**0.5**
Canada	**2.7**	**5.1**	**—**	**—**	**—**	***1.7***	**—**	**—**	**1.7**	**0.1**	**—**
Cayman Islands	**3.4**	**331.6**	**—**	**—**	**—**	***4.7***	**—**	**—**	**4.7**	**0.2**	**—**
Chile	**—**	**9.0**	**—**	**—**	**—**	***—***	**—**	**—**	**—**	**—**	**—**
China	**0.2**	**27.0**	**—**	**—**	**—**	***0.1***	**—**	**—**	**0.1**	**—**	**—**
Colombia	**—**	**1.4**	**—**	**—**	**—**	***0.1***	**—**	**—**	**0.1**	**—**	**—**
Croatia	**—**	**2.6**	**—**	**—**	**—**	***0.2***	**—**	**—**	**0.2**	**—**	**—**

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

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securiti-sation positions in the banking book	*Of which: General credit exposures*	*Of which: General trading book*	*Of which: Securiti-sation exposures*	Total	Own funds require-ments weights	CCyB rate
Country	€m	€m	€m	€m	€m	*€m*	*€m*	*€m*	€m	%	%
Cyprus	0.4	14.0	—	—	—	*0.7*	—	—	0.7	—	—
Czech Republic	77.7	732.4	—	—	—	*42.9*	—	—	42.9	1.6	0.5
Denmark	—	730.3	—	—	—	*15.6*	—	—	15.6	0.6	—
Egypt	0.3	30.5	—	—	—	*0.4*	—	—	0.4	—	—
Finland	2.8	83.1	—	—	—	*3.5*	—	—	3.5	0.1	—
France	5,310.7	55,651.8	—	—	1,894.9	*1,580.2*	—	*29.6*	1,609.9	59.8	—
French Southern Territories	0.1	—	—	—	—	—	—	—	—	—	—
Germany	23.3	1,762.1	—	—	644.1	*44.6*	—	*5.9*	50.5	1.9	—
Ghana	—	118.8	—	—	—	*2.4*	—	—	2.4	0.1	—
Greece	365.8	447.9	—	—	—	*53.5*	—	—	53.5	2.0	—
Guadeloupe	—	0.2	—	—	—	—	—	—	—	—	—
Guernsey	—	84.3	—	—	—	*2.4*	—	—	2.4	0.1	—
Hong Kong	3.7	405.8	—	—	—	*8.0*	—	—	8.0	0.3	1.0
Hungary	—	6.2	—	—	—	*0.3*	—	—	0.3	—	—
India	—	2.9	—	—	—	—	—	—	—	—	—
Indonesia	19.7	135.1	—	—	—	*2.1*	—	—	2.1	0.1	—
Ireland	226.6	1,634.0	—	—	—	*69.0*	—	—	69.0	2.6	—
Isle Of Man	—	1.3	—	—	—	*0.1*	—	—	0.1	—	—
Israel	—	18.6	—	—	—	*0.1*	—	—	0.1	—	—
Italy	81.3	1,858.1	—	—	26.5	*82.0*	—	*1.3*	83.3	3.1	—
Jersey	30.3	—	—	—	—	*1.4*	—	—	1.4	0.1	—
Kazakhstan	—	84.9	—	—	—	*1.0*	—	—	1.0	—	—
Kuwait	9.0	0.3	—	—	—	*0.4*	—	—	0.4	—	—
Liberia	0.1	0.1	—	—	—	—	—	—	—	—	—
Luxembourg	240.8	2,951.1	—	—	17.5	*81.4*	—	*1.4*	82.8	3.1	0.5
Malta	1.2	0.8	—	—	—	*0.1*	—	—	0.1	—	—
Mauritius	—	0.2	—	—	—	—	—	—	—	—	—
Mexico	—	36.2	—	—	—	*0.3*	—	—	0.3	—	—
Monaco	—	2.4	—	—	—	*0.1*	—	—	0.1	—	—
Montenegro	—	3.3	—	—	—	*0.1*	—	—	0.1	—	—
Morocco	—	0.8	—	—	—	*0.1*	—	—	*0.1*	—	—
Netherlands	754.2	3,754.7	—	—	303.3	*171.4*	—	*2.6*	*174.0*	6.5	—
Nigeria	0.1	—	—	—	—	—	—	—	—	—	—
Norway	0.2	64.8	—	—	—	*2.7*	—	—	2.7	0.1	1.0
Oman	1.0	—	—	—	—	*0.1*	—	—	0.1	—	—
Panama	—	190.0	—	—	—	*5.9*	—	—	5.9	0.2	—
Poland	623.3	160.3	—	—	—	*48.6*	—	—	48.6	1.8	—
Portugal	38.4	69.7	—	—	—	*4.8*	—	—	4.8	0.2	—
Qatar	16.5	29.6	—	—	—	*0.7*	—	—	0.7	—	—
Russian	0.3	38.7	—	—	—	*0.5*	—	—	0.5	—	—
Saudi Arabia	0.3	—	—	—	—	—	—	—	—	—	—
Singapore	0.8	23.6	—	—	—	*0.3*	—	—	0.3	—	—
Slovakia	16.2	23.9	—	—	—	*1.5*	—	—	1.5	0.1	1.0
South Africa	2.7	—	—	—	—	*0.2*	—	—	0.2	—	—
Spain	503.7	1,232.7	—	—	141.5	*89.0*	—	*1.8*	90.8	3.4	—
Sri Lanka	—	1.6	—	—	—	—	—	—	—	—	—
Sweden	0.4	425.7	—	—	—	*22.1*	—	—	22.1	0.8	—
Switzerland	24.8	703.7	—	—	—	*21.1*	—	—	21.1	0.8	—
Taiwan, Province Of China	—	0.2	—	—	—	—	—	—	—	—	—
Thailand	—	105.1	—	—	—	—	—	—	—	—	—
Tunisia	—	0.1	—	—	—	—	—	—	—	—	—
Turkey	—	125.7	—	—	—	*5.2*	—	—	5.2	0.2	—
United Arab Emirates	94.5	501.1	—	—	—	*16.0*	—	—	16.0	0.6	—
United Kingdom	2,528.9	1,572.7	—	—	—	*136.9*	—	*3.0*	140.0	5.2	—
United States	120.3	1,690.2	—	—	—	*70.4*	—	—	70.4	2.6	—
Uruguay	1.1	—	—	—	—	*0.1*	—	—	0.1	—	—
Viet Nam	0.5	90.1	—	—	—	*2.0*	—	—	2.0	0.1	—
Total	11,272.0	79,066.4	—	—	3,027.8	*2,647.6*	—	*45.6*	2,693.4	100.0	—

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

	2021	2020
Total Risk Exposure Amount (€m)	**47,795**	46,113
Institution specific countercyclical capital buffer rate	**0.03**	0.02
Institution specific countercyclical capital buffer requirement (€m)	**13**	7

Pillar 1

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

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

Risk category	Scope of permissible approaches	Approach adopted by HSBC Continental Europe
Non-counterparty Credit risk	CRR allows three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories. The internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), while their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject to standard supervisory parameters. Finally, the IRB Advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. Expected Losses are assessed by multiplying EAD by PD and LGD. The capital requirement is intended to cover unexpected losses. It is based on a formula foreseen by the regulatory framework which incorporates PD, LGD, EAD and other variables such as maturity and correlation.	HSBC Continental Europe has adopted the advanced IRB approach for the majority of its business. Some portfolios remain on the standardised or foundation IRB approaches pending model approval, following the supervisory prescription of a non-advanced approach or under exemptions from IRB treatment.
Counterparty credit risk	Two approaches to calculating CCR and determining exposures are defined by the CRR2: the Standardized Approach to measure Counterparty Credit Risk (SA-CCR) and Internal Model Method ('IMM'). These exposures are used to determine capital requirements under one of credit risk approaches; standardised, IRB foundation and IRB advanced. Two approaches are set out by the Regulatory Authorities for calculating the Credit Valuation Adjustment ('CVA') risk capital charge: an advanced methodology that is only available to institutions that have approved internal models, and a standardised approach.	In order to determine exposures at default, HSBC Continental Europe uses the mark-to-market and IMM approaches for counterparty credit risk for derivatives and the financial security-based method for deferred payment transactions. Temporary permission on IMM and CVA model has been granted in 2019 under tolerance period framework. Formal assessment is ongoing.
Equity	For non-trading book, equity exposures can be assessed under standardised, simplified or IRB approaches.	For HSBC Continental Europe reporting purposes, all equity exposures are treated under the IRB simplified approach.
Securitisation	The securitisation framework under CRR prescribes the following approaches: • internal ratings-based approach ('SEC-IRBA'); • external ratings-based approach ('SEC-ERBA'); • internal assessment approach ('IAA'); and • standardised approach ('SEC-SA'). Securitisation positions in the trading book are treated within the market risk framework, under standard rules.	HSBC Continental Europe only holds securitisation positions in banking book. HSBC Continental Europe uses the RBM (Rating-Based Method) except for liquidity facilities and programme-wide enhancements for asset-backed securitisations, for which the IAA is applied.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal Value at Risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include Stressed VaR and Incremental Risk Charge ('IRC').	For HSBC Continental Europe, the risks presented are mainly measured via internal models when approved by the ECB and the PRA, and under the standardised approach for a small remaining portfolio. Internal Market Risk models are based on VaR, Stressed VaR and IRC. Temporary permission for internal models for specific risk has been granted in 2019 under tolerance period framework. Formal assessment is ongoing.
Operational risk	The CRR includes a capital requirement for operational risk, based on three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues. Under the standardised approach; banks apply different percentages to the total operating income to each of eight defined business lines. Thirdly, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.	HSBC Continental Europe has historically adopted and currently uses the standardised approach in determining its operational risk capital requirements.

Pillar 2 and ICAAP

Pillar 2

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

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

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

Pillar 2 is embedded in a broader Supervisory Review and Evaluation Process ('SREP'), which leads to an annual determination of individual capital requirement and guidance.

This process can also include specific demands on all aspects of the bank's management. The SREP process results in a Pillar 2 requirement ('P2R') and a Pillar 2 guidance ('P2G'), which are added to the Pillar 1 requirements ('P1R').

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

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

The P2G should be comprised entirely of CET1 capital and held over and above the OCR.

As a result of the annual SREP, the ECB set to 3.24 per cent the 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. This OCR is composed of the 8 per cent P1R, the 2.50 per cent Capital Conservation Buffer (CCB) in respect of article 129 of the CRD IV, 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 P2R 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 P2G.

Internal capital adequacy assessment

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

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

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

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

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

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

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

Financial Conglomerate

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

In this context, the conglomerate ratio is defined as the ratio between the total capital within the financial conglomerate, and the capital requirement due to banking status cumulated with the capital requirement due to insurance status. The required minimum for this indicator is 100 per cent. At HSBC Continental Europe's level, the excess of capital towards this indicator is of EUR 3 billion for 2021.

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

HSBC Continental Europe became subject to MREL requirements for the first time on 30 March 2020 following reception of decision from the *Autorité de Contrôle Prudentiel et de Résolution ('ACPR').*

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

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

This internal TLAC requirements in 2021 was set at the maximum of 14.4 per cent of RWAs (90 per cent of 16 per cent) in addition to the combined buffer requirement (2.53 per cent of RWAs as of Q4 2021) and 5.4 per cent of leverage exposures (90 per cent of 6 per cent), and could be met with own funds and other internal eligible liabilities such as Senior Non Preferred Notes.

For 2022, the internal TLAC requirements has been set at the maximum of 16.2 per cent of RWAs (90 per cent of 18 per cent) in addition to the combined buffer requirement and 6.075 per cent of leverage exposures (90 per cent of 6.75 per cent).

Credit risk

Overview

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

The tables below set out details of the HSBC Continental Europe's credit risk exposures by exposure class and approach. Further explanation of the HSBC Continental Europe's approach to managing credit risk (including detail of the past due and impaired exposure, and its approach to credit risk impairment) can be found on pages 119 to 126 of the HSBC Continental Europe's *Universal Registration Document 2021.*

Table 13: Credit risk – summary

	At 31 Dec 2021					At 31 Dec 2020				
	Exposure value	**Average exposure value**	**RWAs**	**Capital required**	**RWA Density**	Exposure value	Average exposure value[3]	RWAs	Capital required	RWA Density
	€m	**€m**	**€m**	**€m**	**%**	€m	€m	€m	€m	%
IRB advanced approach	**78,535**	**66,208**	**24,120**	**1,930**	**31**	63,521	64,671	23,185	1,855	36
– central governments and central banks	**1,687**	**1,492**	**141**	**11**	**8**	1,344	1,461	121	10	9
– institutions	**837**	**1,062**	**205**	**16**	**24**	1,036	1,328	294	24	28
– corporates[2]	**51,458**	**38,958**	**17,898**	**1,432**	**35**	36,701	37,612	16,933	1,356	46
– *of which: specialised lending*	***392***	***475***	***282***	***23***	***72***	*900*	*930*	*579*	*46*	*65*
– total retail	**24,553**	**24,696**	**5,876**	**470**	**24**	24,440	24,270	5,837	467	24
– *of which:*										
secured by mortgages on immovable property – small and medium sized enterprises ('SME')	***391***	***415***	***249***	***20***	***64***	*468*	*479*	*300*	*24*	*64*
secured by mortgages on immovable property non-SME	***20,287***	***20,182***	***4,440***	***355***	***22***	*19,563*	*19,383*	*4,233*	*339*	*22*
qualifying revolving retail	***1***	***1***	***—***	***—***	***35***	*1*	*1*	*—*	*—*	*37*
other SME	***1,303***	***1,467***	***318***	***25***	***24***	*1,680*	*1,604*	*441*	*35*	*26*
other non-SME	***2,572***	***2,631***	***870***	***70***	***34***	*2,728*	*2,803*	*863*	*69*	*32*
IRB securitisation positions	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
IRB equity	**265**	**353**	**979**	**78**	**370**	544	722	1,299	104	239
IRB foundation approach	**3,154**	**3,270**	**2,099**	**168**	**67**	3,978	4,355	3,252	260	82
– central governments and central banks	**—**	**2**	**—**	**—**	**—**	4	3	4	—	86
– institutions	**324**	**320**	**185**	**15**	**57**	284	347	212	17	75
– corporates	**2,830**	**2,949**	**1,913**	**153**	**68**	3,690	4,005	3,036	243	82
Standardised approach	**60,311**	**61,825**	**8,821**	**706**	**15**	54,853	58,805	8,695	695	16
– central governments and central banks	**41,640**	**42,791**	**—**	**—**	**—**	35,441	38,591	—	—	—
– regional governments or local authorities	**390**	**384**	**2**	**—**	**—**	323	302	2	—	1
– public sector entities	**3,922**	**3,972**	**10**	**1**	**—**	4,261	3,718	10	1	—
– international organisations	**293**	**371**	**—**	**—**	**—**	927	945	—	—	—
– institutions	**900**	**846**	**283**	**23**	**31**	1,822	2,002	592	47	32
– corporates	**5,884**	**6,012**	**3,870**	**310**	**66**	5,102	5,925	3,589	287	70
– retail	**164**	**152**	**104**	**8**	**63**	168	187	103	8	62
– secured by mortgages on immovable property	**1,355**	**1,387**	**571**	**46**	**42**	1,365	1,349	559	45	41
– exposures in default	**125**	**133**	**134**	**11**	**107**	129	142	143	11	111
– items associated with particularly high risk	**46**	**63**	**69**	**6**	**150**	109	143	163	13	150
– securitisation positions[3]	**3,028**	**3,133**	**570**	**46**	**19**	2,856	2,973	574	46	20
– claims in the form of collective investments undertakings	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
– equity[1]	**647**	**476**	**1,618**	**129**	**250**	—	—	—	—	—
– other items	**1,916**	**2,105**	**1,588**	**127**	**83**	2,350	2,528	2,960	236	126
At 31 Dec 2021	**142,265**	**131,656**	**36,019**	**2,882**	**25**	122,896	128,553	36,431	2,914	30

1 *At 31 December 2021, material holdings were reported in equity under the standard approach (in December 2020, EUR 1,558 million RWA in material holdings were reported in other items).*
2 *Corporates includes specialised lending exposures subject to supervisory slotting approach.*
3 *On 2020, a new securitisation framework came into force in the EU. The new framework prescribes the four approaches : 'SEC-IRBA', 'SEC-ERBA', 'IAA' and 'SEC-SA' method . The line 'Securitisation position' in Standard approach includes 'SEC-ERBA', 'IAA' and 'SEC-SA' method.*

Non-performing and forborne exposures

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

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realization of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The *Universal Registration Document 2021* does not define non-performing exposures, however, the definition of credit impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. In the *Universal Registration Document 2021*, forborne exposures are reported as 'renegotiated loans'. This term is aligned to the EBA definition of forborne exposure except in its treatment of 'cures'.

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

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

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

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

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

	Gross carrying amount/ nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing	Total	*Of which: defaulted*	*Of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*Of which: forborne non-performing exposure*
	€m	€m	*€m*	*€m*	€m	€m	€m	*€m*
At 31 Dec 2021								
Loans and advances[1]	**1,032**	**288**	***288***	***288***	**(10)**	**(99)**	**53**	***51***
Central banks	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–
Credit institutions	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–
Non-financial corporations	**1,032**	**203**	***203***	***203***	**(10)**	**(88)**	**14**	***12***
Households		**85**	***85***	***85***	–	**(11)**	**39**	***39***
Debt securities	–	–	–	–	–	–	–	–
Loan commitments given	–	–	–	–	–	–	–	–
Total	**1,032**	**288**	***288***	***288***	**(10)**	**(99)**	**53**	***51***
At 31 Dec 2020								
Loans and advances	155	246	*246*	*246*	(4)	–	36	*35*
Central banks	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–
Credit institutions	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–
Non-financial corporations	155	178	*178*	*178*	(4)	–	7	*6*
Households	–	68	*68*	*68*	–	–	29	*29*
Debt securities	–	–	–	–	–	–	–	–
Loan commitments given	–	–	–	–	–	–	–	–
Total	155	246	*246*	*246*	(4)	–	36	*35*

1 *Performing forborne exposures as at 31 December 2021 have been reported in accordance with revised regulatory criteria adopted in 2021. Prior periods have not been represented.*

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

Table 15: Credit quality of performing and non-performing exposures by past due days ('CQ3')

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years[2]	Past due > 7 years2	*Of which: defaulted*
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	*€m*
At 31 Dec 2021												
Loans and advances	**124,460**	**124,198**	**262**	**1,294**	**894**	**21**	**21**	**68**	**79**	**58**	**153**	***1,294***
Central banks	**42,832**	**42,832**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
General governments	**934**	**934**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Credit institutions	**14,644**	**14,644**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Other financial corporations	**11,760**	**11,755**	**5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Non-financial corporations	**31,426**	**31,189**	**236**	**921**	**668**	**6**	**13**	**57**	**55**	**35**	**87**	***921***
– *of which: SMEs*[1]	**1,826**	**1,825**	**1**	**164**	**36**	**4**	**6**	**8**	**34**	**24**	**52**	***164***
Households	**22,864**	**22,844**	**21**	**373**	**226**	**15**	**8**	**11**	**24**	**23**	**66**	***373***
Debt securities	**5,741**	**5,741**	**—**	**0**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Central banks	**7**	**7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
General governments	**2,582**	**2,582**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Credit institutions	**2,532**	**2,532**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Other financial corporations	**620**	**620**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Non-financial corporations	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Off-balance-sheet exposures	**107,608**			**182**								***182***
Central banks	**11**			**—**								***—***
General governments	**566**			**—**								***—***
Credit institutions	**36,621**			**—**								***—***
Other financial corporations	**12,128**			**—**								***—***
Non-financial corporations	**56,917**			**179**								***179***
Households	**1,365**			**3**								***3***
Total	**237,809**	**129,939**	**262**	**1,476**	**894**	**21**	**21**	**68**	**79**	**58**	**153**	***1,476***
At 31 Dec 2020												
Loans and advances	116,146	116,119	27	1,393	582	350	21	4	436	—	—	*1,532*
Central banks	32,357	32,357	—	—	—	—	—	—	—	—	—	*—*
General governments	957	957	—	—	—	—	—	—	—	—	—	*—*
Credit institutions	16,167	16,167	—	—	—	—	—	—	—	—	—	*—*
Other financial corporations	13,810	13,810	—	13	—	13	—	—	—	—	—	*13*
Non-financial corporations	30,417	30,415	2	965	450	239	1	—	275	—	—	*1,104*
– *of which: SMEs*[1]	—	—	—	—	—	—	—	—	—	—	—	*—*
Households	22,438	22,413	25	415	131	98	20	4	161	—	—	*415*
Debt securities	7,365	7,365	—	1	1	—	—	—	—	—	—	*1*
Central banks	6	6	—	—	—	—	—	—	—	—	—	*—*
General governments	4,529	4,529	—	—	—	—	—	—	—	—	—	*—*
Credit institutions	2,666	2,666	—	—	—	—	—	—	—	—	—	*—*
Other financial corporations	164	164	—	—	—	—	—	—	—	—	—	*—*
Non-financial corporations	—	—	—	1	1	—	—	—	—	—	—	*1*
Off-balance-sheet exposures	107,116			228								*228*
Central banks	28			—								*—*
General governments	468			—								*—*
Credit institutions	48,902			1								*1*
Other financial corporations	5,463			—								*—*
Non-financial corporations	50,904			224								*224*
Households	1,351			3								*3*
Total	230,627	123,483	27	1,622	583	350	21	4	436	—	—	*1,761*

1 *SME data reported for the first time in December 2021.*
2 *Refinements to available data have enabled the identification and reporting of additional past due exposures >5 years from 30 June 2021 reporting. Prior periods have not been represented.*

The table below provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral obtained by taking possession. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance sheet, whilst the accumulated negative change is the accumulated impairment or negative change on the initial recognition value of the collateral obtained by taking possession including amortisation in the case of property plant and equipment ('PP&E') and investment properties.

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

	At 31 Dec 2021		At 31 Dec 2020	
	Collateral obtained by taking possession		Collateral obtained by taking possession	
	Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
	€m	**€m**	€m	€m
Property, plant and equipment ('PP&E')	—	—	—	—
Other than PP&E	—	—	—	—
Residential immovable property	—	—	—	—
Commercial Immovable property	—	—	—	—
Movable property (auto, shipping, etc.)	—	—	—	—
Equity and debt instruments	—	—	—	—
Other	—	—	—	—
Total	—	—	—	—

1 *No balances were reportable at 31 December 2021 and 31 December 2020.*

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

	Gross carrying amount/ nominal amount						**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**							**Collaterals and financial guarantees received**	
	Performing exposures			**Non-performing exposures**			**Performing exposures – accumulated impairment and provisions**			**Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**					
	Total	***of which: stage 1***	***of which: stage 2***	**Total**	***of which: stage 2***	***of which: stage 3***	**Total**	***of which: stage 1***	***of which: stage 2***	**Total**	***of which: stage 2***	***of which: stage 3***	**Accumulated partial write-off**	**On performing exposures**	**On non-performing exposures**
	€m	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	**€m**	**€m**
At 31 Dec 2021															
Loans and advances	124,460	*119,480*	*4,847*	1,294	—	*1,294*	(144)	*(47)*	*(97)*	(652)	—	*(652)*	—	57,525	329
Central banks	42,832	*42,817*	*15*	—	—	—	—	—	—	—	—	—	—	2,940	—
General governments	934	*934*	—	—	—	—	—	—	—	—	—	—	—	63	—
Credit institutions	14,644	*14,630*	*14*	—	—	—	(1)	*(1)*	—	—	—	—	—	7,385	—
Other financial corporations	11,760	*11,715*	*45*	—	—	—	(1)	*(1)*	—	—	—	—	—	8,661	—
Non-financial corporations	31,426	*27,144*	*4,149*	921	—	*921*	(115)	*(32)*	*(83)*	(516)	—	*(516)*	—	16,755	137
– of which: SMEs	*1,826*	*1,452*	*374*	*164*	—	*164*	*(17)*	*(7)*	*(10)*	*(108)*	—	*(108)*	—	*1,294*	*48*
Households	22,864	*22,240*	*624*	373	—	*373*	(27)	*(13)*	*(14)*	(136)	—	*(136)*	—	21,721	192
Debt securities	5,741	*5,741*	—	—	—	—	—	—	—	—	—	—	—	—	—
Central banks	7	*7*	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	2,582	*2,582*	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	2,532	*2,532*	—	—	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	620	*620*	—	—	—	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	107,608	*95,393*	*1,777*	182	—	*74*	(19)	*(7)*	*(12)*	(36)	—	*(7)*		552	6
Central banks	11	—	—	—	—	—	—	—	—	—	—	—		—	—
General governments	566	*566*	—	—	—	—	—	—	—	—	—	—		—	—
Credit institutions	36,621	*35,753*	*60*	—	—	—	(2)	—	*(2)*	—	—	—		—	—
Other financial corporations	12,128	*11,002*	*38*	—	—	—	(1)	*(1)*	—	—	—	—		27	—
Non-financial corporations	56,917	*46,749*	*1,655*	179	—	*72*	(16)	*(6)*	*(10)*	(36)	—	*(7)*		452	6
Households	1,365	*1,323*	*24*	3	—	*2*	—	—	—	—	—	—		73	—
Total	237,809	*220,614*	*6,624*	1,476	—	*1,368*	(163)	*(54)*	*(109)*	(688)	—	*(659)*	—	58,077	335

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

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

1 *SME data reported for the first time in December 2021.*

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

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

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

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

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

		Net exposure value				
		On demand	<= 1 year	> 1 year <= 5	> 5 years	Total
1	**Loans and advances**	**41,631**	**12,317**	**19,635**	**26,276**	**99,859**
2	**Debt securities**	**—**	**1,228**	**3,469**	**579**	**5,276**
3	**Total at 31 Dec 2021**	**41,631**	**13,545**	**23,104**	**26,855**	**105,135**
1	Loans and advances	**29,711**	**8,333**	**21,588**	**30,319**	**89,951**
2	Debt securities	**—**	**1,544**	**4,562**	**1,290**	**7,396**
3	Total at 31 Dec 2020	**29,711**	**9,877**	**26,150**	**31,609**	**97,347**

Table 20: Geographical breakdown of exposures

	At 31 Dec 2021				At 31 Dec 2020			
	Of which[2]:				*Of which[2]:*			
	France	Other Europe	Other geographical areas	Total	France	Other Europe	Other geographical areas	Total
	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	**55,939**	**16,783**	**5,813**	**78,535**	48,902	9,249	5,370	63,521
– central governments and central banks	**—**	**3**	**1,684**	**1,687**	—	—	1,344	1,344
– institutions	**394**	**355**	**88**	**837**	438	462	136	1,036
– corporates[3]	**31,009**	**16,409**	**4,040**	**51,458**	24,059	8,759	3,883	36,701
– *of which: specialised lending*	***350***	***35***	***7***	***392***	*900*	*—*	*—*	*900*
– total retail	**24,535**	**17**	**1**	**24,553**	24,405	28	7	24,440
– *of which:*								
secured by mortgages on immovable property SME	***390***	***1***	***—***	***391***	*468*	*—*	*—*	*468*
secured by mortgages on immovable property non-SME	***20,287***	***—***	***—***	***20,287***	*19,563*	*—*	*—*	*19,563*
qualifying revolving retail	***1***	***—***	***—***	***1***	*1*	*—*	*—*	*1*
other SME	***1,286***	***16***	***1***	***1,303***	*1,645*	*28*	*7*	*1,680*
other non-SME	***2,572***	***—***	***—***	***2,572***	*2,728*	*—*	*—*	*2,728*
IRB securitisation positions	**—**	**—**	**—**	**—**	—	—	—	—
IRB equity	**238**	**27**	**—**	**265**	490	54	—	544
IRB foundation approach	**228**	**2,734**	**192**	**3,154**	447	3,050	481	3,978
– central governments and central banks	**—**	**—**	**—**	**—**	—	3	1	4
– institutions	**—**	**287**	**37**	**324**	—	243	41	284
– corporates	**228**	**2,447**	**155**	**2,830**	447	2,804	439	3,690
Standardised approach	**47,661**	**11,385**	**1,264**	**60,311**	41,312	11,855	1,686	54,853
– central governments and central banks	**37,982**	**3,658**	**—**	**41,640**	31,789	3,652	—	35,441
– regional governments or local authorities	**8**	**382**	**—**	**390**	9	315	—	324
– public sector entities	**2,720**	**1,202**	**—**	**3,922**	2,877	1,384	—	4,261
– international organisations	**—**	**—**	**293**	**293**	—	—	927	927
– institutions	**3**	**66**	**831**	**900**	40	1,307	475	1,822
– corporates	**1,766**	**3,982**	**136**	**5,884**	2,076	2,747	279	5,102
– retail	**111**	**53**	**—**	**164**	142	25	—	167
– secured by mortgages on immovable property	**712**	**639**	**4**	**1,355**	664	696	5	1,365
– exposures in default	**40**	**85**	**—**	**125**	45	83	—	128
– items associated with particularly high risk	**46**	**—**	**—**	**46**	109	—	—	109
– securitisation positions[4]	**1,895**	**1,133**	**—**	**3,028**	1,415	1,441	—	2,856
– claims in the form of CIU	**—**	**—**	**—**	**—**	—	—	—	—
– equity[1]	**647**	**—**	**—**	**647**	—	—	—	—
– other items	**1,731**	**185**	**—**	**1,916**	2,146	205	—	2,351
Total	**104,066**	**30,929**	**7,269**	**142,265**	91,151	24,208	7,537	122,896

1 *At 31 December 2021, material holdings were reported in equity under the standard approach (in December 2020, EUR 623 million in material holdings were reported in other items).*
2 *Amounts shown by geographical region in this table is based on the country of residence of the counterparty.*
3 *Corporates includes specialised lending exposures subject to supervisory slotting approach.*
4 *On 2020, a new securitisation framework came into force in the EU. The new framework prescribes the four approaches : 'SEC-IRBA', 'SEC-ERBA', 'IAA' and 'SEC-SA' method .The line 'Securitisation position' in Standard approach includes 'SEC-ERBA', 'IAA' and 'SEC-SA' method.*

Table 21: Credit risk exposure – by industry sector

	Agricul-ture	Mining	Manu-facturing	Utilities	Water supply	Cons-truction	Whole-sale & retail trade	Transpor-tation & storage	Accom-modation & food services	Infor-mation & communi cation	Finan-cial & insurance
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	96	720	6,072	2,750	5	567	4,326	2,757	428	1,001	8,115
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	230
– institutions	–	–	–	–	–	–	–	–	–	–	837
– corporates[2]	84	719	5,923	2,749	4	472	3,964	2,702	349	934	6,977
– total retail	12	1	149	1	1	95	362	55	79	67	71
– *of which:*											
secured by mortgages on immovable property SME	*2*	–	*8*	*1*	–	*2*	*8*	*1*	*7*	–	*6*
secured by mortgages on immovable property non-SME	–	–	–	–	–	–	–	–	–	–	–
qualifying revolving retail	–	–	–	–	–	–	–	–	–	–	–
other SME	*10*	*1*	*142*	*1*	*1*	*93*	*353*	*53*	*72*	*67*	*65*
other non-SME	–	–	–	–	–	–	–	–	–	–	–
IRB securitisation positions	–	–	–	–	–	–	–	–	–	–	–
IRB equity	–	–	–	–	–	–	–	–	–	–	188
IRB foundation approach	–	155	611	222	73	281	266	155	39	9	402
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	324
– corporates	–	155	611	222	73	281	266	155	39	9	78
Standardised approach	49	3	635	61	1	99	113	76	162	7	51,209
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	39,186
– regional governments or local authorities	–	–	–	–	–	–	–	–	–	–	83
– public sector entities	–	–	11	–	–	–	–	1	–	–	3,373
– international organisations	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	883
– corporates	45	3	614	57	1	50	104	58	43	6	3,247
– retail	2	–	9	–	–	8	5	15	1	1	3
– secured by mortgages on immovable property	2	–	–	–	–	–	–	–	116	–	–
– exposures in default	–	–	1	4	–	41	4	2	2	–	3
– items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–
– securitisation positions	–	–	–	–	–	–	–	–	–	–	3,028
– claims in the form of CIU	–	–	–	–	–	–	–	–	–	–	–
– equity[1]	–	–	–	–	–	–	–	–	–	–	647
– other items	–	–	–	–	–	–	–	–	–	–	756
At 31 Dec 2021	145	878	7,318	3,033	79	947	4,705	2,988	629	1,017	59,914

Table 21: Credit risk exposure – by industry sector (continued)

	Real estate	Profes-sional activities	Adminis-trative service	Public admin & defence	Educ-ation	Human health & social work	Arts & enter-tainment	Other services	Personal	Extra-territorial bodies	Non-Custo-mer assets	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	4,896	254	21,272	358	24	424	261	229	22,872	1,108	–	78,535
– central governments and central banks	–	–	–	349	–	–	–	–	–	1,108	–	1,687
– institutions	–	–	–	–	–	–	–	–	–	–	–	837
– corporates[2]	4,501	244	21,020	9	15	378	210	204	–	–	–	51,458
– total retail	395	10	252	–	9	46	51	25	22,872	–	–	24,553
– *of which:*												
secured by mortgages on immovable property SME	*330*	*1*	*21*	–	–	*2*	*1*	*1*	–	–	–	*391*
secured by mortgages on immovable property non-SME	–	–	–	–	–	–	–	–	*20,287*	–	–	*20,287*
qualifying revolving retail	–	–	*1*	–	–	–	–	–	–	–	–	*1*
other SME	*64*	*10*	*230*	–	*9*	*44*	*50*	*25*	*13*	–	–	*1,303*
other non-SME	–	–	–	–	–	–	–	–	*2,572*	–	–	*2,572*
IRB securitisation positions	–	–	–	–	–	–	–	–	–	–	–	–
IRB equity	35	10	32	–	–	–	–	–	–	–	–	265
IRB foundation approach	11	88	652	–	–	6	132	52	–	–	–	3,154
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	–	324
– corporates	11	88	652	–	–	6	132	52	–	–	–	2,830
Standardised approach	1,158	45	1,040	3,042	4	60	26	55	833	293	1,339	60,311
– central governments and central banks	–	–	222	2,222	–	9	1	–	–	–	–	41,640
– regional governments or local authorities	–	–	–	307	–	–	–	–	–	–	–	390
– public sector entities	–	–	–	511	–	26	–	–	–	–	–	3,922
– international organisations	–	–	–	–	–	–	–	–	–	293	–	293
– institutions	–	–	17	–	–	–	–	–	–	–	–	900
– corporates	697	43	602	2	3	23	22	55	90	–	119	5,884
– retail	52	2	14	–	1	2	3	–	46	–	–	164
– secured by mortgages on immovable property	361	–	181	–	–	–	–	–	635	–	60	1,355
– exposures in default	2	–	4	–	–	–	–	–	62	–	–	125
– items associated with particularly high risk	46	–	–	–	–	–	–	–	–	–	–	46
– securitisation positions	–	–	–	–	–	–	–	–	–	–	–	3,028
– claims in the form of CIU	–	–	–	–	–	–	–	–	–	–	–	–
– equity[1]	–	–	–	–	–	–	–	–	–	–	–	647
– other items	–	–	–	–	–	–	–	–	–	–	1,160	1,916
At 31 Dec 2021	6,100	397	22,996	3,400	28	490	419	336	23,705	1,401	1,339	142,265

Table 21: Credit risk exposure – by industry sector (continued)

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

Table 21: Credit risk exposure – by industry sector (continued)

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

1 *At 31 December 2021, material holdings were reported in equity under the standard approach (in December 2020, EUR 623 million in material holdings were reported in other items).*

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

3 *On 2020, a new securitisation framework came into force in the EU. The new framework prescribes the four approaches : 'SEC-IRBA', 'SEC-ERBA', 'IAA' and 'SEC-SA' method. The line 'Securitisation position' in Standard approach includes 'SEC-ERBA', 'IAA' and 'SEC-SA' method.*

Table 22: Credit risk exposure – by maturity

	Less than 1 year €m	Between 1 and 5 years €m	More than 5 years €m	Undated €m	Total €m
IRB advanced approach	**26,666**	**27,629**	**24,240**	**—**	**78,535**
– central governments and central banks	308	1,185	194	—	1,687
– institutions	291	455	91	—	837
– corporates[2]	25,533	22,454	3,471	—	51,458
– *of which: specialised lending*	10	376	6	—	392
– total retail	*533*	*3,535*	*20,485*	—	*24,553*
– *of which:* *secured by mortgages on immovable property SME*	7	85	299	—	391
secured by mortgages on immovable property non-SME	*111*	*942*	*19,232*	—	*20,287*
qualifying revolving retail	—	*1*	—	—	*1*
other SME	*355*	*724*	*224*	—	*1,303*
other non-SME	*60*	*1,784*	*728*	—	*2,572*
IRB securitisation positions	—	—	—	—	—
IRB equity	—	—	—	*265*	*265*
IRB foundation approach	**1,767**	**1,249**	**138**	**—**	**3,154**
– central governments and central banks	—	—	—	—	—
– institutions	165	142	17	—	324
– corporates	1,602	1,107	121	—	2,830
Standardised approach	46,640	6,818	4,756	2,097	60,311
– central governments and central banks	40,135	785	720	—	41,640
– regional governments or local authorities	66	269	55	—	390
– public sector entities	355	1,355	2,213	—	3,922
– international organisations	—	230	63	—	293
– institutions	786	61	53	—	900
– corporates	3,475	1,647	762	—	5,884
– retail	25	65	74	—	164
– secured by mortgages on immovable property	181	551	623	—	1,355
– exposures in default	20	22	83	—	125
– items associated with particularly high risk	33	—	13	—	46
– securitisation positions	1,410	1,521	97	—	3,028
– claims in the form of CIU	—	—	—	—	—
– equity[1]	—	—	—	647	647
– other items	156	311	—	1,449	1,916
At 31 Dec 2021	**75,073**	**35,696**	**29,134**	**2,362**	**142,265**

Table 22: Credit risk exposure – by maturity (continued)

	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
	€m	€m	€m	€m	€m
IRB advanced approach	13,089	26,612	23,821	—	63,522
– central governments and central banks	135	1,209	—	—	1,344
– institutions	574	326	136	—	1,036
– corporates[2]	10,288	22,716	3,697	—	36,701
– of which: specialised lending	*115*	*782*	*3*	—	*900*
– total retail	2,092	2,361	19,988	—	24,441
– of which: *secured by mortgages on immovable property SME*	*15*	*85*	*368*	—	*468*
secured by mortgages on immovable property non-SME	*91*	*910*	*18,562*	—	*19,563*
qualifying revolving retail	—	—	—	—	—
other SME	*619*	*804*	*257*	—	*1,680*
other non-SME	*1,367*	*561*	*800*	—	*2,728*
IRB securitisation positions	—	—	—	—	—
IRB equity	—	—	—	544	544
IRB foundation approach	1,521	2,283	199	(25)	3,978
– central governments and central banks	—	4	—	—	4
– institutions	132	130	22	—	284
– corporates	1,389	2,149	177	(25)	3,690
Standardised approach	34,821	8,717	9,517	1,797	54,852
– central governments and central banks	28,153	2,091	5,197	—	35,441
– regional governments or local authorities	—	181	142	—	323
– public sector entities	404	1,509	2,348	—	4,261
– international organisations	251	493	183	—	927
– institutions	1,462	162	198	—	1,822
– corporates	2,648	1,738	716	—	5,102
– retail	44	82	42	—	168
– secured by mortgages on immovable property	45	729	591	—	1,365
– exposures in default	36	10	83	—	129
– items associated with particularly high risk	92	—	17	—	109
– securitisation positions[3]	1,462	1,393	—	—	2,855
– claims in the form of CIU	—	—	—	—	—
– equity[1]	—	—	—	—	—
– other items	224	329	—	1,797	2,350
At 31 Dec 2020	49,431	37,612	33,537	2,316	122,896

1 At 31 December 2021, material holdings were reported in equity under the standard approach (in December 2020, EUR 623 million in material holdings were reported in other items).

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

3 On 2020, a new securitisation framework came into force in the EU. The new framework prescribes the four approaches : 'SEC-IRBA', 'SEC-ERBA', 'IAA' and 'SEC-SA' method. The line 'Securitisation position' in Standard approach includes 'SEC-ERBA', 'IAA' and 'SEC-SA' method.

Table 23: Specialised lending and equity exposures under the simple riskweighted approach ('CR10')

Regulatory categories	Remaining maturity	Specialised lending (Slotting approach) On-balance sheet exposure €m	Off-balance sheet exposure €m	Risk weight %	Exposure value €m	Risk weighted exposure amount €m	Expected loss amount €m
Category 1	Less than 2.5 years	**93**	**—**	**50**	**89**	**44**	**—**
	Equal to or more than 2.5 years	**155**	**24**	**70**	**153**	**97**	**1**
Category 2	Less than 2.5 years	**61**	**11**	**70**	**64**	**45**	**—**
	Equal to or more than 2.5 years	**23**	**49**	**90**	**7**	**5**	**—**
Category 3	Less than 2.5 years	**100**	**—**	**115**	**79**	**90**	**2**
	Equal to or more than 2.5 years	**—**	**—**	**115**	**—**	**—**	**—**
Category 4	Less than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
	Equal to or more than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
Category 5	Less than 2.5 years	**—**	**—**	**—**	**—**	**—**	**—**
	Equal to or more than 2.5 years	**—**	**—**	**—**	**—**	**—**	**—**
Total at 31 Dec 2021	Less than 2.5 years	**254**	**11**		**232**	**179**	**2**
	Equal to or more than 2.5 years	**178**	**73**		**160**	**102**	**1**

Categories	Equity exposures under the simple risk-weighted approach On-balance sheet exposure €m	Off-balance sheet exposure €m	Risk weight %	Exposure value €m	Risk weighted exposure amount €m	Expected loss amount €m
Exchange-traded equity exposures	**—**	**—**	**290**	**—**	**—**	**—**
Private equity exposures[1]	**—**	**—**	**190**	**—**	**—**	**—**
Other equity exposures	**223**	**42**	**370**	**265**	**979**	**6**
Total at 31 Dec 2021	**223**	**42**		**265**	**979**	**6**

Regulatory categories	Remaining maturity	Specialised lending (Slotting approach) On-balance sheet exposure €m	Off-balance sheet exposure €m	Risk weight %	Exposure value €m	Risk weighted exposure amount €m	Expected loss amount €m
Category 1	Less than 2.5 years	171	2	50	170	80	—
	Equal to or more than 2.5 years	541	15	70	530	344	2
Category 2	Less than 2.5 years	115	33	70	122	86	—
	Equal to or more than 2.5 years	77	—	90	77	69	—
Category 3	Less than 2.5 years	—	—	115	—	—	—
	Equal to or more than 2.5 years	—	—	115	—	—	—
Category 4	Less than 2.5 years	—	—	250	—	—	—
	Equal to or more than 2.5 years	—	—	250	—	—	—
Category 5	Less than 2.5 years	—	—	—	—	—	—
	Equal to or more than 2.5 years	—	—	—	—	—	—
Total at 31 Dec 2020	Less than 2.5 years	286	35		292	166	—
	Equal to or more than 2.5 years	618	15		607	413	2

Categories	Equity exposures under the simple risk-weighted approach On-balance sheet exposure €m	Off-balance sheet exposure €m	Risk weight %	Exposure value €m	Risk weighted exposure amount €m	Expected loss amount €m
Exchange-traded equity exposures	—	—	290	—	—	—
Private equity exposures	200	197	190	397	755	3
Other equity exposures	147	—	370	147	544	4
Total at 31 Dec 2020	347	197		544	1,299	7

1 *At December 2021 Private equity portfolio is not sufficiently diversified which lead to change of risk weight from 190 per cent to 370 per cent as per article 155 of the CRR.*

Table 24: Wholesale IRB exposures under the slotting approach

	Exposure 2021 €m	2020 €m
Supervisory Category		
Category 1 – Strong	**242**	700
Category 2 – Good	**71**	200
Category 3 – Satisfactory	**79**	—
Category 4 – Weak	**—**	—
Category 5 – Default	**—**	—
At 31 Dec	**392**	900

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

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

Our approach for determining impairment allowances is explained in the HSBC Continental Europe's *Universal Registration Document 2021,* and HSBC Continental Europe's definitions for accounting purposes of 'past due' and 'impaired' are set out on page 126.

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

Table 25: Amount of impaired exposures and related allowances by industry sector and geographical region of booking

	At 31 Dec 2021				At 31 Dec 2020			
	France	**European branches**	**Other**	**Total**	France	European Union	Other	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Past due but not impaired exposures	**286**	**8**	**—**	**294**	60	19	—	79
– personal	**39**	**8**	**—**	**48**	53	14	—	67
– corporate and commercial	**236**	**—**	**—**	**236**	6	5	—	11
– financial	**11**	**—**	**—**	**11**	1	—	—	1
Impaired exposures	**1,145**	**339**	**—**	**1,484**	1,245	420	—	1,665
– personal	**288**	**88**	**—**	**376**	334	99	—	433
– corporate and commercial	**855**	**251**	**—**	**1,106**	881	283	—	1,164
– financial	**2**	**—**	**—**	**2**	30	38	—	68
Impairment allowances and other credit risk provisions	**(718)**	**(133)**	**—**	**(851)**	(706)	(190)	—	(896)
– personal	**(116)**	**(48)**	**—**	**(164)**	(133)	(60)	—	(194)
– corporate and commercial	**(600)**	**(85)**	**—**	**(685)**	(551)	(129)	—	(679)
– financial	**(2)**	**—**	**—**	**(2)**	(22)	(1)	—	(23)

Table 26: Movement in credit risk adjustments by industry sector and by geographical region of booking

	2021				2020			
	France	**European branches**	**Other**	**Total**	France	European Union	Other	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Credit risk adjustment at 1 Jan	**708**	**188**	**—**	**896**	566	178	—	744
Amounts written off	**(69)**	**(13)**	**—**	**(82)**	(115)	(14)	—	(129)
– personal	**(11)**	**(2)**	**—**	**(13)**	(8)	(2)	—	(10)
– corporate and commercial	**(57)**	**(11)**	**—**	**(68)**	(107)	(12)	—	(119)
– financial	**(1)**	**—**	**—**	**(1)**	—	—	—	—
Recoveries of amounts written off in previous years	**2**	**—**	**—**	**2**	2	—	—	2
– personal	**1**	**—**	**—**	**1**	1	—	—	1
– corporate and commercial	**1**	**—**	**—**	**1**	1	—	—	1
– financial	**—**	**—**	**—**	**—**	—	—	—	—
Charge to income statement	**80**	**(42)**	**—**	**38**	256	27	—	283
– personal	**(8)**	**(10)**	**—**	**(18)**	17	3	—	20
– corporate and commercial	**106**	**(31)**	**—**	**75**	263	24	—	287
– financial	**(18)**	**(1)**	**—**	**(19)**	(24)	—	—	(24)
Exchange and other movements	**(3)**	**—**	**—**	**(3)**	(1)	(3)	—	(4)
Credit risk adjustment at 31 Dec	**718**	**133**	**—**	**851**	708	188	—	896

Expected Loss ('EL') and credit risk adjustments

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

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

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

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

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

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

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

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

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

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

The description of the approach and method adopted for determining credit risk adjustments is explained in page 129 of the HSBC Continental Europe's *Universal Registration Document 2021.*

In addition, the reconciliation of changes in credit risk adjustments for impaired exposures are disclosed in page 131 of the HSBC Continental Europe's Universal Registration Document 2021.Table 21 sets out, for IRB credit exposures, the EL, CRA balances and the actual loss experience reflected in the charges for CRAs.

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

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

Table 27: IRB expected loss and CRA – by exposure class

	2021			2020		
		CRA[1]			CRA[1]	
	Expected loss[1]	Balances	Charge for the year	Expected loss[1]	Balances	Charge for the year
	€m	€m	€m	€m	€m	€m
IRB exposure classes						
Central governments and central banks	—	—	—	—	—	1
Institutions	1	(2)	8	1	(9)	6
Corporates	493	(447)	(65)	524	(499)	(372)
Retail	231	(232)	11	268	(264)	(328)
– secured by mortgages on immovable property SME	21	(22)	—	25	(23)	(21)
– secured by mortgages on immovable property non-SME	53	(49)	3	61	(52)	(130)
– qualifying revolving retail	—	(1)	1	—	(3)	(8)
– other SME	104	(99)	—	123	(110)	(116)
– other non-SME	53	(61)	7	59	(76)	(53)
Equity and Private Equity	6	—	—	7	—	—
At 31 Dec	731	(681)	(46)	800	(772)	(693)

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

Risk mitigation

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

Collateral

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

Further information regarding charges held over residential and commercial property is provided on page 137 and about credit risk concentrations within the credit mitigation taken on page 117 of the HSBC Continental Europe's Universal Registration Document 2021.

Financial collateral

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

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

Other forms of Credit Risk Mitigation

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

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

In our corporate lending, we also take guarantees from corporates and Export Credit Agencies. Corporates normally provide guarantees as part of a parent/subsidiary or common parent relationship and span a number of credit grades. Export Credit Agencies will normally be investment grade.

Policy and procedures

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

Valuing collateral

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

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

Recognition of risk mitigation under the IRB approach

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

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

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

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

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

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

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

Recognition of risk mitigation under the standardised approach

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

Table 29 sets out the credit risk mitigation for exposures under the standardised approach, expressed as the exposure value covered by the credit risk mitigant.

Table 28: CRM techniques overview: Disclosure of the use of credit risk mitigation techniques ('CR3')

	Unsecured carrying amount	Secured carrying amount	*of which: secured by collateral*	*of which: secured by financial guarantees*	*of which: secured by credit derivatives*
	€m	€m	*€m*	*€m*	*€m*
Loans and advances	**61,944**	**37,916**	***11,014***	***26,902***	**—**
Debt securities	**5,185**	**91**	**—**	***91***	**—**
Off-balance sheet exposures	**48,426**	**25,221**	***2,773***	***16,854***	***5,594***
Total at 31 Dec 2021	**115,555**	**63,228**	***13,787***	***43,847***	***5,594***
Loans and advances	56,417	33,534	*10,638*	*22,896*	—
Debt securities	7,387	8	—	*8*	—
Off-balance sheet exposures	50,942	10,135	*2,287*	*2,228*	*5,620*
Total at 31 Dec 2020	114,746	43,677	*12,925*	*25,132*	*5,620*

Table 29: Standardised approach – Credit risk exposure and CRM effects ('CR4')

	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet amount	RWAs	RWAs density
Exposure classes	**€m**	**€m**	**€m**	**€m**	**€m**	**%**
Central governments or central banks	**41,053**	**264**	**41,446**	**194**	**—**	**—**
Regional government or local authorities	**257**	**100**	**340**	**50**	**2**	**—**
Public sector entities	**3,524**	**1,237**	**3,524**	**399**	**10**	**—**
Multilateral development banks	**—**	**—**	**—**	**—**	**—**	**—**
International organisations	**293**	**—**	**293**	**—**	**—**	**—**
Institutions	**167**	**1,126**	**181**	**718**	**283**	**31**
Corporates	**4,374**	**4,468**	**4,140**	**1,744**	**3,870**	**66**
Retail	**186**	**186**	**114**	**51**	**104**	**63**
Secured by mortgages on immovable property	**1,315**	**87**	**1,315**	**40**	**571**	**42**
Exposures in default	**150**	**17**	**122**	**3**	**134**	**107**
Exposures associated with particularly high risk	**29**	**47**	**29**	**17**	**69**	**150**
Covered bonds	**—**	**—**	**—**	**—**	**—**	**—**
Institutions and corporates with a short-term credit assessment	**—**	**—**	**—**	**—**	**—**	**—**
Collective investment undertakings	**—**	**—**	**—**	**—**	**—**	**—**
Equity[1]	**647**	**—**	**647**	**—**	**1,618**	**250**
Other items	**1,916**	**—**	**1,916**	**—**	**1,588**	**83**
Total at 31 Dec 2021	**53,911**	**7,532**	**54,067**	**3,216**	**8,251**	**14**
Central governments or central banks	34,350	493	35,046	395	—	—
Regional government or local authorities	323	—	323	—	2	1
Public sector entities	3,856	1,032	3,819	442	10	—
Multilateral development banks	—	—	—	—	—	—
International organisations	927	—	927	—	—	—
Institutions	938	1,456	981	842	592	32
Corporates	4,834	3,463	4,291	811	3,589	70
Retail	217	132	148	20	104	62
Secured by mortgages on immovable property	1,324	89	1,324	41	559	41
Exposures in default	131	23	124	4	143	111
Exposures associated with particularly high risk	79	97	79	30	163	150
Covered bonds	—	—	—	—	—	—
Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
Collective investment undertakings	—	—	—	—	—	—
Equity	—	—	—	—	—	—
Other items[1]	2,350	—	2,350	—	2,960	126
Total at 31 Dec 2020	49,329	6,785	49,412	2,585	8,122	16

1 *At 31 December 2021, material holdings were reported in equity under the standard approach (in December 2020, EUR 1,558 million RWA in material holdings were reported in other items).*

Table 30: Credit risk mitigation techniques – IRB and Standardised

	2021					2020				
			Secured by:					Secured by:		
	Exposures unsecured: carrying amount	**Exposures secured: carrying amount**	**collateral**	**financial guarantees**	**credit derivatives**	Exposures unsecured: carrying amount	Exposures secured: carrying amount	collateral	financial guarantees	credit derivatives
	€m	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m	€m
Exposures under the IRB approach										
Central governments and central banks	**1,686**	**26**	**—**	**26**	**—**	1,378	46	—	46	—
Institutions	**1,613**	**378**	**32**	**346**	**—**	1,726	292	14	278	—
Corporates	**56,918**	**35,154**	**7,099**	**22,461**	**5,594**	59,795	17,878	6,493	5,765	5,620
Retail	**1,983**	**22,147**	**3,926**	**18,221**	**—**	3,116	21,212	4,154	17,058	—
Total	**62,200**	**57,705**	**11,057**	**41,053**	**5,594**	66,016	39,428	10,661	23,147	5,620
Exposures under the standardised approach										
Central governments and central banks	**41,318**	**—**	**—**	**—**	**—**	34,843	—	—	—	—
Institutions	**1,278**	**15**	**8**	**7**	**—**	2,250	356	285	71	—
Corporates	**4,894**	**3,947**	**1,203**	**2,744**	**—**	5,002	2,340	476	1,864	—
Retail	**323**	**48**	**34**	**14**	**—**	295	54	53	1	—
Secured by mortgages on immovable property		**1,402**	**1,402**		**—**	—	1,412	1,412	—	—
Exposures in default	**80**	**87**	**59**	**28**	**—**	86	27	8	19	
Items associated with particularly high risk	**75**	**—**	**—**	**—**	**—**	176	—	—	—	—
Regional governments or local authorities	**357**	**—**	**—**	**—**	**—**	323	—	—	—	—
Public sector entities	**4,737**	**24**	**24**	**—**	**—**	4,828	60	29	31	—
International organisations	**293**	**—**	**—**	**—**	**—**	927	—	—	—	—
Total	**53,355**	**5,523**	**2,730**	**2,793**	**—**	48,730	4,249	2,264	1,985	—

1 *The exposures reported are after on and off balance sheet netting and after the application of volatility adjustments and excluded securitisation positions and equity.*

Table 31: IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques ('CR7')

	At 31 Dec 2021		At 31 Dec 2020	
	Pre-credit derivatives risk weighted exposure amount	**Actual risk weighted exposure amount**	Pre-credit derivatives risk weighted exposure amount	Actual risk weighted exposure amount
	€m	**€m**	€m	€m
Exposures under FIRB				
Central governments and central banks	**—**	**—**	4	4
Institutions	**185**	**185**	212	212
Corporates	**1,913**	**1,913**	3,036	3,036
– *of which:* *SMEs*	***4***	***4***	—	—
specialised lending	**—**	**—**	—	—
Exposures under AIRB				
Central governments and central banks	**142**	**142**	121	121
Institutions	**205**	**205**	294	294
Corporates	**17,983**	**17,898**	17,066	16,933
– *of which:* *SMEs*	***9***	***9***	—	—
specialised lending	***282***	***282***	*579*	*579*
Retail	**5,876**	**5,876**	5,837	5,837
– *of which:* *retail – SMEs – Secured by immovable property collateral*	***248***	***248***	*300*	*300*
retail – non-SMEs – Secured by immovable property collateral	***4,440***	***4,440***	*4,233*	*4,233*
retail – Qualifying revolving	**—**	**—**	—	—
retail – SMEs – Other	***318***	***318***	*441*	*441*
retail – Non-SMEs – Other	***870***	***870***	*863*	*863*
Total (including FIRB exposures and AIRB exposures)	**26,304**	**26,219**	26,570	26,437

Table 32: IRB approach – Disclosure of the extent of the use of CRM techniques ('CR7-A')

		Credit risk Mitigation techniques				
		Funded credit Protection (FCP)				
	Total exposures	Part of exposures covered by Financial Collaterals	Part of exposures covered by Other eligible collaterals	Part of exposures covered by Immo-vable property Collaterals	Part of exposures covered by Receivables	Part of exposures covered by Other physical collateral
				%	%	%
A-IRB						
Central governments and central banks	**1,687**	—	—	—	—	—
Institutions	**837**	—	—	—	—	—
Corporates	**51,458**	4	13	10	1	2
– *of which:* *Corporates – SMEs*	***21***	—	*100*	*100*	—	—
Corporates – Specialised lending	***392***	—	—	—	—	—
Corporates – Other	***51,046***	*4*	*13*	*10*	*1*	*2*
Retail	**24,553**	7	30	30	—	—
– *of which:* *Retail – Immovable property SMEs*	***391***	*7*	*100*	*100*	—	—
Retail – Immovable property non-SMEs	***20287***	*1*	*33*	*33*	—	—
Retail – Qualifying revolving	***1***	—	—	—	—	—
Retail – Other SMEs	***1303***	*10*	*1*	—	*1*	—
Retail – Other non-SMEs	***2572***	*53*	—	—	—	—
Total A-IRB at 31 Dec 2021	**78,535**	5	18	16	1	1
F-IRB						
Central governments and central banks	—	—	—	—	—	—
Institutions	**324**	—	—	—	—	—
Corporates	**2,830**	25	3	—	—	3
– *of which:* *Corporates – SMEs*	***7***	—	—	—	—	—
Corporates – Specialised lending	—	—	—	—	—	—
Corporates – Other	***2,823***	*25*	*3*	—	—	*3*
Total F-IRB at 31 Dec 2021	**3,154**	22	3	—	—	3

Table 32: IRB approach – Disclosure of the extent of the use of CRM techniques ('CR7-A') (continued)

	Credit risk Mitigation techniques						Credit risk Mitigation methods in the calculation of RWAs	
	Funded credit Protection (FCP)				Unfunded credit Protection (UFCP)			
	Part of exposures covered by Other funded credit protection	Part of exposures covered by Cash on deposit	Part of exposures covered by Life insurance policies	Part of exposures covered by Instruments held by a third party	Part of exposures covered by Guarantees	Part of exposures covered by Credit Derivatives	RWAs without substitution effects (reduction effects only)	RWAs with substitution effects (both reduction and sustitution effects)
	%	%	%	%	%	%	€m	€m
A-IRB								
Central governments and central banks	–	–	–	–	–	–	142	142
Institutions	–	–	–	–	–	–	205	205
Corporates	–	–	–	–	25	–	17,897	17,897
– *of which:* *Corporates – SMEs*	–	–	–	–	*2*	–	*9*	*9*
Corporates – Specialised lending	–	–	–	–	–	–	*282*	*282*
Corporates – Other	–	–	–	–	*25*	–	*17,606*	*17,606*
Retail	–	–	–	–	74	–	5,876	5,876
– *of which:* *Retail – Immovable property SMEs*	–	–	–	–	–	–	*249*	*249*
Retail – Immovable property non-SMEs	–	–	–	–	*87*	–	*4,439*	*4,439*
Retail – Qualifying revolving	–	–	–	–	–	–	–	–
Retail – Other SMEs	–	–	–	–	*33*	–	*318*	*318*
Retail – Other non-SMEs	–	–	–	–	*1*	–	*870*	*870*
Total A-IRB at 31 Dec 2021	–	–	–	–	39	–	24,120	24,120
F-IRB								
Central governments and central banks	–	–	–	–	–	–	–	–
Institutions	–	–	–	–	–	–	185	185
Corporates	–	–	–	–	36	–	2,046	1,913
– *of which:* *Corporates – SMEs*	–	–	–	–	–	–	*4*	*4*
Corporates – Specialised lending	–	–	–	–	–	–	–	–
Corporates – Other	–	–	–	–	*36*	–	*2,042*	*1,909*
Total F-IRB at 31 Dec 2021	–	–	–	–	33	–	2,231	2,098

Table 33: IRB approach – Credit risk exposures by exposure class and PD range ('CR6')

PD scale	On-balance sheet exposures €m	Off-balance-sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post CCF and post CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjust-ments and provisions €m
AIRB – Central governments and central banks												
0.00 to <0.15	**1,682**	**–**	**–**	**1,682**	**–**	**9**	**45**	**3**	**137**	**8**	**–**	**–**
0.15 to <0.25	**25**	**–**	**–**	**1**	**–**	**1**	**45**	**2**	**–**	**41**	**–**	**–**
0.25 to <0.50	**–**	**–**	**–**	**–**	**–**	**1**	**45**	**1**	**–**	**47**	**–**	**–**
0.50 to <0.75	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.75 to <2.50	**3**	**–**	**100**	**3**	**1**	**2**	**45**	**4**	**3**	**109**	**–**	**–**
2.50 to <10.00	**1**	**–**	**–**	**1**	**6**	**2**	**45**	**3**	**1**	**175**	**–**	**–**
10.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100.00 (Default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**1,711**	**–**	**100**	**1,687**	**–**	**15**	**45**	**3**	**141**	**8**	**–**	**–**
AIRB – Institutions												
0.00 to <0.15	**711**	**579**	**55**	**758**	**–**	**221**	**44**	**3**	**146**	**19**	**–**	**–**
0.15 to <0.25	**5**	**1**	**20**	**6**	**–**	**9**	**45**	**2**	**2**	**41**	**–**	**–**
0.25 to <0.50	**–**	**7**	**20**	**1**	**–**	**2**	**45**	**3**	**1**	**73**	**–**	**–**
0.50 to <0.75	**17**	**61**	**90**	**72**	**1**	**5**	**45**	**2**	**56**	**77**	**–**	**2**
0.75 to <2.50	**–**	**–**	**20**	**–**	**1**	**6**	**45**	**1**	**–**	**105**	**–**	**–**
2.50 to <10.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
10.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100.00 (Default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**733**	**648**	**59**	**837**	**–**	**243**	**44**	**3**	**205**	**24**	**–**	**2**
AIRB – Corporates – SME												
0.00 to <0.15	**–**	**–**	**–**	**–**	**–**	**1**	**3**	**1**	**–**	**1**	**–**	**–**
0.15 to <0.25	**–**	**–**	**–**	**–**	**–**	**1**	**20**	**1**	**–**	**10**	**–**	**–**
0.25 to <0.50	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.50 to <0.75	**5**	**–**	**–**	**5**	**1**	**7**	**24**	**4**	**2**	**35**	**–**	**–**
0.75 to <2.50	**15**	**–**	**24**	**15**	**2**	**25**	**25**	**5**	**7**	**50**	**–**	**–**
2.50 to <10.00	**1**	**–**	**–**	**1**	**6**	**1**	**6**	**5**	**–**	**16**	**–**	**–**
10.00 to <100.00	**–**	**–**	**–**	**–**	**10**	**1**	**21**	**2**	**–**	**56**	**–**	**–**
100.00 (Default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**21**	**–**	**24**	**21**	**2**	**36**	**24**	**5**	**9**	**45**	**–**	**–**
AIRB – Corporates – specialised lending												
0.00 to <0.15	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.15 to <0.25	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.25 to <0.50	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.50 to <0.75	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.75 to <2.50	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.50 to <10.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
10.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100.00 (Default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
AIRB – Corporates – other												
0.00 to <0.15	**7,250**	**36,584**	**49**	**26,664**	**–**	**744**	**23**	**2**	**3,983**	**15**	**7**	**2**
0.15 to <0.25	**3,915**	**7,644**	**25**	**5,282**	**–**	**470**	**34**	**2**	**2,008**	**38**	**5**	**1**
0.25 to <0.50	**1,661**	**3,701**	**24**	**2,402**	**–**	**236**	**31**	**3**	**1,265**	**53**	**4**	**1**
0.50 to <0.75	**1,686**	**2,719**	**31**	**2,586**	**1**	**1,089**	**29**	**3**	**1,450**	**56**	**5**	**3**
0.75 to <2.50	**6,730**	**6,085**	**31**	**8,042**	**1**	**3,421**	**24**	**3**	**4,907**	**61**	**30**	**18**
2.50 to <10.00	**3,315**	**2,312**	**27**	**3,935**	**4**	**2,514**	**23**	**3**	**2,960**	**75**	**41**	**42**
10.00 to <100.00	**1,450**	**271**	**24**	**1,481**	**16**	**468**	**11**	**3**	**835**	**56**	**27**	**23**
100.00 (Default)	**624**	**79**	**34**	**654**	**100**	**496**	**28**	**3**	**199**	**30**	**326**	**329**
Subtotal	**26,631**	**59,395**	**41**	**51,046**	**2**	**9,438**	**25**	**2**	**17,607**	**34**	**445**	**419**
AIRB – Non-credit obligation assets												
0.00 to <0.15	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.15 to <0.25	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.25 to <0.50	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.50 to <0.75	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.75 to <2.50	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.50 to <10.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
10.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100.00 (Default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Table 33: IRB approach – Credit risk exposures by exposure class and PD range ('CR6')

PD scale	On-balance sheet exposures €m	Off-balance-sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post CCF and post CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjust-ments and provisions €m
Subtotal	—	—	—	—	—	—	—	—	—	—	—	—
Wholesale AIRB – Total at 31 Dec 2021	**29,096**	**60,043**	**41**	**53,591**	**2**	**9,732**	**26**	**2**	**17,962**	**34**	**445**	**421**
AIRB – Secured by mortgages on immovable property SME												
0.00 to <0.15	—	—	—	—	—	1	28	—	—	2	—	—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—
0.25 to <0.50	8	—	—	8	—	38	27	—	1	16	—	—
0.50 to <0.75	13	—	—	13	1	79	26	—	2	18	—	—
0.75 to <2.50	74	1	37	74	2	406	27	—	26	35	—	—
2.50 to <10.00	235	3	85	238	4	1,362	25	—	149	63	3	4
10.00 to <100.00	21	—	20	21	17	151	25	—	22	104	1	1
100.00 (Default)	36	—	1,766	37	100	267	29	—	49	131	17	17
Subtotal	**387**	**4**	**89**	**391**	**13**	**2,304**	**26**	**—**	**249**	**64**	**21**	**22**
AIRB – Secured by mortgages on immovable property non-SME												
0.00 to <0.15	5,313	52	59	5,339	—	36,844	9	—	1,175	22	—	1
0.15 to <0.25	4,502	59	62	4,535	—	27,520	9	—	950	21	1	1
0.25 to <0.50	3,566	56	50	3,591	—	18,870	10	—	779	22	1	1
0.50 to <0.75	2,459	47	53	2,482	1	12,272	9	—	515	21	2	1
0.75 to <2.50	2,686	72	72	2,736	1	15,834	10	—	591	22	3	3
2.50 to <10.00	1,250	74	75	1,304	4	7,090	10	—	311	24	6	4
10.00 to <100.00	172	1	64	172	19	1,152	10	—	49	29	3	2
100.00 (Default)	126	—	904	128	100	981	13	—	70	55	37	36
Subtotal	**20,074**	**361**	**64**	**20,287**	**1**	**120,563**	**9**	**—**	**4,440**	**22**	**53**	**49**
AIRB – Qualifying revolving retail exposures												
0.00 to <0.15	137	—	—	—	—	160,572	100	—	—	5	—	—
0.15 to <0.25	80	—	—	—	—	79,284	100	—	—	11	—	—
0.25 to <0.50	38	—	—	—	—	36,501	100	—	—	19	—	—
0.50 to <0.75	15	—	—	—	1	13,727	100	—	—	25	—	—
0.75 to <2.50	37	—	—	—	1	32,199	100	—	—	50	—	1
2.50 to <10.00	15	—	—	—	4	12,875	35	—	—	39	—	—
10.00 to <100.00	4	—	—	—	15	3,073	100	—	—	235	—	—
100.00 (Default)	1	—	—	—	100	445	30	—	—	75	—	1
Subtotal	**327**	**—**	**—**	**—**	**23**	**338,676**	**67**	**—**	**—**	**35**	**—**	**2**
AIRB – Other SME												
0.00 to <0.15	—	—	—	—	—	5	36	—	—	3	—	—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—
0.25 to <0.50	10	8	76	17	—	680	28	—	3	16	—	—
0.50 to <0.75	32	20	75	50	1	1,978	26	—	8	16	—	—
0.75 to <2.50	225	108	82	324	2	11,350	23	—	70	22	1	1
2.50 to <10.00	468	170	96	661	5	32,775	21	—	169	26	7	4
10.00 to <100.00	103	23	69	121	17	3,472	17	—	34	28	4	3
100.00 (Default)	125	14	30	130	100	9,320	27	—	34	26	92	91
Subtotal	**963**	**343**	**86**	**1,303**	**15**	**59,580**	**22**	**—**	**318**	**24**	**104**	**99**
AIRB – Other non-SME												
0.00 to <0.15	311	193	3	761	—	256,239	25	—	85	11	—	1
0.15 to <0.25	321	143	3	651	—	229,097	25	—	134	21	—	2
0.25 to <0.50	176	75	1	337	—	127,339	25	—	111	33	1	1
0.50 to <0.75	105	34	7	183	1	70,838	24	—	71	39	—	1
0.75 to <2.50	225	67	14	345	1	124,595	24	—	180	52	1	3
2.50 to <10.00	106	26	13	157	5	73,337	24	—	128	81	2	3
10.00 to <100.00	44	5	20	60	15	38,238	26	—	66	111	2	3
100.00 (Default)	70	2	89	78	100	17,122	28	—	95	122	47	47
Subtotal	**1,358**	**545**	**5**	**2,572**	**4**	**936,805**	**25**	**—**	**870**	**34**	**53**	**61**
Retail AIRB – Total at 31 Dec 2021	**23,109**	**1,253**	**44**	**24,553**	**3**	**1,457,928**	**12**	**—**	**5,877**	**24**	**231**	**233**
FIRB – Central governments and central banks												

Table 33: IRB approach – Credit risk exposures by exposure class and PD range ('CR6')

PD scale	On-balance sheet exposures €m	Off-balance-sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post CCF and post CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjust-ments and provisions €m
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—	—	—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	—	—	—	—	—	1	—	—	—	—	—	—
0.75 to <2.50	—	—	100	—	—	1	—	2	—	100	—	—
2.50 to <10.00	—	—	100	—	—	1	—	1	—	100	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**—**	**—**	**100**	**—**	**—**	**3**	**—**	**2**	**—**	**100**	**—**	**—**
FIRB – Institutions												
0.00 to <0.15	13	343	24	104	—	56	45	2	35	34	—	—
0.15 to <0.25	—	4	27	10	—	6	45	1	4	41	—	—
0.25 to <0.50	—	—	—	—	—	1	45	1	—	47	—	—
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	83	132	72	177	1	5	45	1	143	81	1	—
2.50 to <10.00	1	35	92	33	4	8	3	1	3	11	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**97**	**514**	**40**	**324**	**1**	**76**	**41**	**2**	**185**	**57**	**1**	**—**
FIRB – Corporates – SME												
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—	—	—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	—	33	20	7	2	2	45	1	4	63	—	—
2.50 to <10.00	—	—	—	—	—	—	—	—	—	—	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**—**	**33**	**20**	**7**	**2**	**2**	**45**	**1**	**4**	**63**	**—**	**—**
FIRB – Corporates – specialised lending												
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—	—	—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	—	—	—	—	—	—	—	—	—	—	—	—
2.50 to <10.00	—	—	—	—	—	—	—	—	—	—	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
FIRB – Corporates – other												
0.00 to <0.15	92	1,146	24	467	—	133	43	2	141	30	—	—
0.15 to <0.25	535	277	29	638	—	92	12	1	98	15	—	—
0.25 to <0.50	197	407	37	325	—	97	34	1	155	48	1	—
0.50 to <0.75	162	420	26	270	1	193	36	2	173	64	1	—
0.75 to <2.50	445	1,203	28	673	2	503	41	2	738	110	5	2
2.50 to <10.00	166	664	49	364	4	305	44	2	553	152	7	7
10.00 to <100.00	38	58	22	22	17	47	45	4	51	237	2	1
100.00 (Default)	38	75	35	64	100	30	45	1	—	—	29	17
Subtotal	**1,673**	**4,250**	**30**	**2,823**	**3**	**1,400**	**34**	**2**	**1,909**	**68**	**45**	**27**
FIRB – Non-credit obligation assets												
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—	—	—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	—	—	—	—	—	—	—	—	—	—	—	—
2.50 to <10.00	—	—	—	—	—	—	—	—	—	—	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
FIRB – Total at 31 Dec 2021	**1,770**	**4,797**	**31**	**3,154**	**3**	**1,481**	**35**	**2**	**2,098**	**67**	**46**	**27**

Table 34: Scope of the use of IRB and SA approaches ('CR6-A')

		Exposure value subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA	Percentage of total exposure value subject to IRB Approach	Percentage of total exposure value subject to a roll-out plan
		€m	€m	%	%	%
1	Central governments or central banks	1,712	55,681	1.0	—	—
	– *of which:*					
1.1	*Regional governments or local authorities*	—	*307*	*0.8*	—	*0.2*
1.2	*Public sector entities*	—	*3,923*	*0.9*	—	*0.1*
2	Institutions	3,430	8,358	—	0.4	0.6
3	Corporates	78,782	87,008	—	0.9	0.1
	– *of which:*					
3.1	*Corporates – Specialised lending, excluding slotting approach*	—	—	—	—	—
3.2	*Corporates – Specialised lending under slotting approach*	*459*	*505*	—	*0.9*	—
4	Retail	*23,983*	*25,212*	—	*1.0*	—
	– *of which:*					
4.1	*Retail – Secured by real estate SMEs*	*390*	*525*	—	*0.7*	*0.3*
4.2	*Retail – Secured by real estate non-SMEs*	*20,344*	*21,180*	—	*1.0*	—
4.3	*Retail – Qualifying revolving*	*327*	*327*	—	*1.0*	—
4.4	*Retail – Other SMEs*	*1,160*	*1,309*	—	*0.9*	*0.1*
4.5	*Retail – Other non-SMEs*	*1,762*	*1,872*	—	*0.9*	*0.1*
5	Equity	—	647	1.0	—	—
6	Other non-credit obligation assets	—	30	1.0	—	—
7	**Total at 31 Dec 2021**	107,908	176,935	0.3	0.6	0.1

Counterparty credit risk

Overview

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

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

Further explanation of the HSBC Continental Europe's approach to managing counterparty credit risk can be found on page 139 of the HSBC Continental Europe's Universal Registration Document 2021.

Table 35: Analysis of CCR exposure by approach ('CCR1')[1]

	Replacement cost ('RC')	Potential future exposure ('PFE')	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWAs
	€m	€m	€m		€m	€m	€m	€m
EU – Original Exposure Method (for derivatives)	–	–	–	1.4	–	–	–	–
EU – Simplified SA-CCR (for derivatives)	–	–	–	1.4	–	–	–	–
SA-CCR (for derivatives)	425	1,155	–	1.4	–	1,994	1,994	773
IMM (for derivatives and SFTs)			5,967	1.45	–	8,672	8,672	2,369
– *of which:* *securities financing transactions netting sets*	–	–	–	*1.45*	–	–	–	–
derivatives and long settlement transactions netting sets	–	–	*5,967*	*1.45*		*8,672*	*8,672*	*2,369*
from contractual cross-product netting sets	–	–			–			
Financial collateral simple method (for SFTs)	–	–	–		–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–		–	9,284	9,284	316
VaR for SFTs	–	–	–		–			
Total at 31 Dec 2021	**425**	**1,155**	**5,967**		**–**	**19,950**	**19,950**	**3,458**

1 *Balances have been revised to exclude exposure to central counterparties as per CRR Art. 439*

Table 36: Transactions subject to own funds requirements for CVA risk ('CCR2')

		At 31 Dec 2021		At 31 Dec 2020	
		Exposure value	RWAs	Exposure value	RWAs
		€m	€m	€m	€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).*

Table 37: Composition of collateral for CCR exposures ('CCR5')

		Collateral used in derivative transactions				Collateral used in SFTs			
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
		Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
	Collateral type	€m	€m	€m	€m	€m	€m	€m	€m
1	Cash – domestic currency	–	15,392	–	13,442	–	80,477	–	83,368
2	Cash – other currencies	–	5,489	–	2,528	–	309	–	6,639
3	Domestic sovereign debt	39	563	–	241	–	17,674	–	29,358
4	Other sovereign debt	228	1,859	181	768	–	63,837	–	50,197
5	Government agency debt	–	–	–	–	–	–	–	–
6	Corporate bonds	–	12	2	–	–	2,413	–	1,028
7	Equity securities	–	–	–	–	–	902	–	726
8	Other collateral	–	566	–	–	–	68	–	29
9	**Total at 31 December 2021**	**268**	**23,881**	**183**	**16,978**	**–**	**165,680**	**–**	**171,346**

Collateral arrangements

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

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

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

Further information on gross fair value exposure and the offset due to legally enforceable netting and collateral is set out on page 264 of the HSBC Continental Europe's Universal Registration Document 2021.

Credit Valuation Adjustment ('CVA') hedges

In the normal course of business, HSBC Continental Europe enters into bilateral transactions that can generate risky exposure when there is no or only partial credit mitigants.

For non-CVA exempted counterparties, the bank computes own funds requirements for the credit valuation adjustment risk.

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

Credit rating downgrade

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

Market risk

Overview

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

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

Further explanation of the HSBC Continental Europe's approach to managing market risk can be found on page 149 of the HSBC Continental Europe's Universal Registration Document 2021.

Table 38: Market risk under the standardised approach ('MR1')

		2021		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.*

Table 39: Market risk under the Internal Model Approach ('IMA') ('MR2-A')

		2021		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 ('VaRavg')	**505**	**40**	444	35
2	**Stressed VaR (higher of values a and b)**	**1,557**	**125**	964	77
(a)	Latest available SVaR	**260**	**21**	329	26
(b)	Multiplication factor (ms) x average of previous 60 working days ('sVaRavg')	**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 Risk

Overview

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.

Further explanation of HSBC Continental Europe's approach to managing operational risk can be found on page 155 of the HSBC Continental Europe's Universal Registration Document 2021.

Table 40: Operational risk - RWA

	2021		2020	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Own funds requirement for operational risk	**3,557**	**285**	3,283	263

Other risks

Further details of the other risks identified by HSBC Continental Europe are described in the Risks section in particular the reputational risk, business risk and sustainability risk which can be found on pages 159 to 174 in the HSBC Continental Europe's *Universal Registration Document 2021.*

Liquidity and funding

Liquidity management across the group

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

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

Strategies and processes in the management of liquidity risk

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

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

Structure and organisation of the liquidity risk management function

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

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

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

Management of liquidity and funding risk

Liquidity coverage ratio

The LCR metric was designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has an adequate stock of unencumbered high-quality liquid assets ('HQLA') that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar days liquidity stress scenario. HSBC Continental Europe's LCR computed in respect of the EU Delegated act was 145 per cent as at 31 December 2021. In accordance with the regulation EU 2019/876 of the European Parliament ('CRR II'), published on 20 May 2019, the table below represents the average of the previous twelve month-end balances for each reporting date. As such, the LCR values reported below do not represent the point-in-time ratios at the end of the period.

Table 41: Quantitative information of LCR (‘LIQ1’)

	Quarter ended							
	31 Dec 2021		30 Sep 2021		30 Jun 2021		31 Mar 2021	
	Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
	€m	**€m**	€m	€m	€m	€m	€m	€m
Number of data points used in the calculation of averages	**12**		12		12		12	
High-quality liquid asset								
Total high-quality liquid assets (HQLA)		**47,496**		46,542		46,367		45,161
Cash – Outflows								
Retail deposits and small business funding	**25,698**	**2,075**	25,436	2,049	25,202	2,028	24,952	2,008
– *of which:*								
stable deposits	***15,605***	***780***	*15,523*	*776*	*15,423*	*771*	*15,270*	*763*
less stable deposits	***10,094***	***1,295***	*9,914*	*1,273*	*9,779*	*1,257*	*9,682*	*1,244*
Unsecured wholesale funding	**36,442**	**15,806**	34,917	15,219	34,661	15,484	33,943	15,416
– Operational deposits (all counterparties) and deposits in networks of cooperative banks	**16,090**	**3,987**	15,851	3,925	15,807	3,911	15,623	3,862
– Non-operational deposits (all counterparties)	**19,947**	**11,414**	18,481	10,709	18,205	10,924	17,435	10,669
– Unsecured debt	**405**	**405**	585	585	649	649	885	885
Secured wholesale funding		**305**		223		214		246
Additional requirements	**55,872**	**12,045**	54,045	11,197	52,046	10,184	48,733	9,128
– Outflows related to derivative exposures and other collateral requirements	**2,209**	**2,209**	2,161	2,161	2,210	2,210	2,229	2,229
– Outflows related to loss of funding on debt products	**—**	**—**	—	—	—	—	—	—
– Credit and liquidity facilities	**53,663**	**9,836**	51,884	9,036	49,836	7,974	46,503	6,899
Other contractual funding obligations	**8,758**	**1,924**	7,919	1,729	7,558	1,312	7,370	1,240
Other contingent funding obligations	**14,982**	**1,010**	14,411	978	14,679	1,008	14,451	1,019
Total cash outflows		**33,165**		31,395		30,230		29,056
Cash – Inflows								
Secured lending transactions (including reverse repos)	**46,937**	**615**	47,393	234	49,736	210	52,276	216
Inflows from fully performing exposures	**3,323**	**2,373**	3,261	2,337	3,646	2,726	4,007	3,066
Other cash inflows	**10,853**	**4,034**	10,527	3,866	10,004	3,525	9,659	3,387
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	**—**	**—**	—	—		—		—
(Excess inflows from a related specialised credit institution)	**—**	**—**	—	—		—		—
Total cash inflows	**61,112**	**7,022**	61,181	6,437	63,385	6,461	65,942	6,669
Fully exempt inflows	**—**	**—**	—	—	—	—	—	—
Inflows subject to 90% cap	**—**	**—**	—	—	—	—	—	—
Inflows subject to 75% cap	**58,261**	**7,048**	57,646	6,464	59,961	6,488	62,613	6,695
Total adjusted value					—	—	—	—
Liquidity buffer		**47,496**		46,542	—	46,367	—	45,161
Total net cash outflows		**33,424**		32,093	—	30,940	—	29,656
Liquidity coverage ratio %[1]		**142**		145	—	150	—	152

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

Net stable funding ratio

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

Since June 2021 onwards, HSBC Continental Europe disclosed NSFR according to the CRR II regulation.

HSBC Continental Europe’s NSFR was 130 per cent at 31 December 2021.

Previously, HSBC Continental Europe anticipated and included the main changes of the CRR II NSFR regulation in its Long Term Funding Metric (‘LTFM’).

Table 42: Net Stable Funding Ratio ('LIQ2')

	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
	€m	€m	€m	€m	€m
At 31 Dec 2021					
Available stable funding ('ASF') Items					
Capital items and instruments					
Own funds		–	–	9,517	9,517
Other capital instruments		–	–	–	–
Retail deposits		25,551	–	–	23,466
Stable deposits		15,373	–	–	14,604
Less stable deposits		10,178	–	–	8,862
Wholesale funding		62,042	10	11,806	36,464
Operational deposits		23,766	–	–	8,361
Other wholesale funding		38,277	10	11,806	28,103
Interdependent liabilities					
Other liabilities					
NSFR derivative liabilities	–	–	–	–	–
All other liabilities and capital instruments not included in the above categories		26,125	563	15,970	16,252
Total available stable funding ('ASF')					85,698
Required stable funding ('RSF') Items					
Total high-quality liquid assets ('HQLA')					251
Assets encumbered for more than 12m in cover pool		–		23,519	23,007
Deposits held at other financial institutions for operational purposes		–	–	–	–
Performing loans and securities:					
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		39,395	–	–	–
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		38,614	1,005	5,700	6,921
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		12,801	4,301	19,238	24,272
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*6*	*6*	*16,112*	15,013
Performing residential mortgages		839	846	19,392	–
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		–	–	–	–
Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		6,429	–	3	51
Interdependent assets		–	–	–	–
Other assets:					
Physical traded commodities		–	–	–	–
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		885			752
NSFR derivative assets		2,763			2,763
NSFR derivative liabilities before deduction of variation margin posted		9,675			484
All other assets not included in the above categories		577	4	4,162	4,183
Off-balance sheet items		63,814			3,191
Total RSF					65,760
Net Stable Funding Ratio (%)					130

Internal Liquidity Metric (ILM)

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

Liquid assets

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

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

Overall adequacy of liquidity risk management

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

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

The two key objectives of the ILAAP process are to:

- demonstrate that all material liquidity and funding risks are captured within the internal framework; and
- validate the risk tolerance/appetite set at HSBC Continental Europe's level by demonstrating that reverse stress testing

scenarios are acceptably remote; and vulnerabilities have been assessed through the use of severe stress scenarios.

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

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

Liquidity stress testing

HSBC Continental Europe undertakes liquidity stress testing to test that its risk appetite is appropriate, to validate that it can continue to operate under various stress scenarios and to test whether the stress assumptions within the LCR scenario are appropriate and conservative enough for the business. Stress-testing enables the management to make sure of the availability of the liquidity in a time of stress to continue to meet the liquidity requirements

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

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

HSBC Group's business strategy and overall liquidity risk profile

The key aspects of the LFRF are:

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

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

Further details on our Liquidity and funding risk may be found on page 146 of HSBC Continental Europe's Universal Registration Document 2021.

Interest rate risk in the banking book

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

Asset, Liability and Capital Management ('ALCM') monitor and control interest rate risk in banking book. This includes reviewing and challenging the global businesses prior to the release of new products and proposed behavioural assumptions used for hedging activities. ALCM are also responsible for maintaining and updating the transfer pricing framework, informing the Asset and Liability Committee ('ALCO') of the banking book interest rate risk exposure and managing the balance sheet in conjunction with Markets Treasury. EVE and NII sensitivities are monitored against limits and triggers. Group IRRBB as part of Group Treasury, Markets Treasury and ALCO perform oversight over the management of IRRBB. IRRBB is also subject to independent oversight and challenge from Market Risk, Internal Audit and Model governance.

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected net interest income ('NII') under varying interest rate scenarios (i.e. simulation modelling), where all other economic variables are held constant. Sensitivity of net interest income reflects the bank's sensitivity of earnings due to changes in market interest rates. This is assessed over 1 year and 5 years and is calculated on a quarterly basis.

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

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

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

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

– an immediate shock of +/-25 basis points ('bps') to the current market-implied path of interest rates across all currencies (effects over one year and five years)

– an immediate shock of +/-100bps to the current market-implied path of interest rates across all currencies (effects over one year and five years). This scenario includes the effect of flooring the interest rates curve.

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

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

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

– for ΔEVE, commercial margins and other spread components have been excluded from the interest cash flows calculation and all balance sheet items are discounted at the risk free rate; all CET1 instruments are excluded; flooring starting at -1.0 per cent for overnight tenor and increasing 5bps per year to 0.0 per cent for the 20 year tenor and requirement to net 100 per cent of the negative values with 50 per cent of the positive values by currency.
– for ΔNII assume constant balance sheet; use commercial margin; all forecasted market rates are based on implied forward rates from the loaded spot curves at each quarter-end; all interest rate shocks are parallel shocks; pass on assumptions applied for managed rate products; customer pricing include flooring where there is contractual obligations and customer optionality including prepayment and early redemption risk assumed.
– The repricing maturity of non maturity deposits is assessed using both:
  - an historical analysis at product level to confirm the stable part of deposits in respect of past interest rate environment;
  - the business expectations of customer behaviour and product adequation with respect to stressed scenarios.
  - as at end December 2021, repricing maturities for non-maturity deposits from retail and non-financial wholesale counterparties were:

in months	average repricing maturity	longest repricing maturity
Core part	**54**	240
Full amount	**28.5**	240

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

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

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

Table 43: Interest rate risks of non-trading book activities ('IRRBB1')

	ΔEVE €m	ΔNII €m
At 31 Dec 2021		
Parallel shock up	**(507)**	**187**
Parallel shock down	**13**	**(30)**
Steepener shock	**(74)**	
Flattener shock	**(77)**	
Short rates shock up	**(56)**	
Short rates shock down	**27**	

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.

Further details on our IRRBB may be found on page 149 of HSBC Continental Europe's Universal Registration Document 2021.

Risk management of insurance operations

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

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

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

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

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

Further details of the management of financial risks and insurance risk arising from the insurance operations are provided from page 170 of the HSBC *Continental Europe's* Universal Registration Document 2021.

Remuneration

As a subsidiary of HSBC Group, the general remuneration principles implemented within HSBC Continental Europe are part of the broader framework of the HSBC Group's remuneration policy which is subject to the rules laid down by the UK regulators (mainly the Prudential Regulatory Authority). In addition, these remuneration principles are applied taking into account the local regulatory framework and any European specific regulations.

Governance

In term of Governance, remuneration policy is overseen by the HSBC Continental Europe Remuneration Committee chaired by Philippe Houzé, independent non-executive Director appointed in 2009. 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. To comply with this rule, Upon recommendation from the Nomination and Corporate Governance Committee, the Board of Directors decided, during the 2020 and 2021 financial year, to appoint as members of the Remuneration Committee:

- Arnaud Poupart-Lafarge, replacing Jacques Veyrat
- Paule Cellard, replacing Samir Assaf;
- Christine D'Amore, replacing Laurent Lagueny employees representative

The Remuneration Committee has non-executive responsibility for matters related to remuneration covering all European branches and subsidiaries of HSBC Continental Europe and all business lines. 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.

The Remuneration Committee met twice in 2021, compared to one meeting in 20200 with attendance rate of 100 per cent. Its main work concerned:

- the review HSBC's general remuneration policy in HSBC Continental Europe, in respect of 2020 performance 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 Chief Compliance Officer;
- 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 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
- 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 at the Board meeting on 9 February 2021. All of the Committee's work was submitted to the Board for approval.

No expert or external consultants advices were sought by the Remuneration Committee.

In respect of 2021 performance year, the Remuneration Committee met on 28 January 2022 and reviewed, in particular, the implementation in 2021 of the new regulation Capital Risk Requirement V (CRD V).

Main characteristics of the remuneration policy

At HSBC Group level, the compensation policy defined takes into account, on one hand, the sustainable financial performance and the commercial competitiveness of the company as a whole and each of its businesses and, on the other hand, 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 compensation 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 on one hand through financial metrics such as evolution of Profit Before Tax, growth in revenue on strategic objectives and focusing on synergy with other regions, costs control, comparison of revenue and cost trends ('JAWS'), evolution in profitability through, in particular, return on risk weighted assets. On the other hand 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 risks 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 Global Career Banding GCB 0-3, 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.

Variable pay pools for control functions are set independently of the business they oversee, as they are all independent global functions covering all businesses.

These variable pay 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 a four points rating scale implemented in respect of 2014 :

- 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 the current year budget or objectives.

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

In addition, a process to identify any breaches on internal or compliance rules, with potential impact on performance rating and variable pay, is in place for many years.

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 organization, a lack of internal or external competitiveness.

Material Risk takers

In compliance with the rules under Capital Risk Directive V (CRD V) disclosed in December 2020, certain categories of employees whose professional activities have a material impact on the bank' risk profile were identified, on the basis of the qualitative and quantitative criteria defined in the Regulatory Technical Standard (RTS) rules disclosed by the European Bank Authority, Material Risk Takers (MRT). Pursuant to these criteria, 126 employees, at Group and local level, have been identified MRTs for the performance year 2021, covering the following main categories :

- Executive Directors,
- Executive Committee members,
- Heads of Businesses and Material Business Units,
- Heads of Control functions and sub-control functions,
- Heads of Global functions,
- Heads of Trading Desks, Heads of sales and senior traders with trading book authority,
- Heads of material risks,
- Chairman and voting member of Risk Committees,
- Individuals with credit risks authority.

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 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.

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.

The following tables show the remuneration awards made to Material Risk Takers ('MRTs') in HSBC Continental Europe and its subsidiaries and branches for 2021.

Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard disclosed by the European Bank Authority. The tables below include the total remuneration of individuals identified as HSBC Continental Europe MRTs based on their role and professional activities who could have a potential impact on the risk profile of the bank.

Table 44: Remuneration awarded for the financial year ('REM1')

		2021				
		Management Body Supervisory function	**Management Body Management function**	**Other Senior Management**	**Other identified staff**	**Total**
		€m	**€m**	**€m**	**€m**	**€m**
Fixed remuneration	Number of identified staff	–	3	25.0	98	126
	Total fixed remuneration	–	2.6	10.4	26.1	39.2
	– *of which:*					
	cash based[1]	–	*2.6*	*10.4*	*26.1*	*39.2*
	shares	–	–	–	–	–
	shares-linked instruments	–	–	–	–	–
	other instruments	–	–	–	–	–
	other forms	–	–	–	–	–
Variable Pay	Number of identified staff	–	3	20.0	80	103
	Total variable pay[2]	–	2.4	7.1	14.6	24.1
	– *of which:*					
	cash based	–	*1.2*	*3.4*	*7.1*	*11.7*
	deferred	–	*0.7*	*1.7*	*2.8*	*5.2*
	– *of which:*					
	shares[3]	–	*1.2*	*3.4*	*6.5*	*11.1*
	deferred	–	*0.7*	*1.7*	*2.9*	*5.3*
	shares linked instruments	–	–	–	–	–
	– *of which:*					
	deferred	–	–	–	–	–
	other instruments	–	–	–	–	–
	– *of which:*					
	deferred	–	–	–	–	–
	other forms[4]	–	–	*0.2*	*0.5*	*0.7*
	deferred	–	–	*0.1*	*0.5*	*0.6*
Total remuneration		–	5.0	17.6	40.7	63.3

1 *Cash based fixed remuneration is paid immediately.*
2 *Variable pay awarded in respect of 2021. In accordance with shareholders' approval received on 23 May 2014 for each MRT the variable pay component of total remuneration for any one year is limited to 200 per cent of fixed component of the total remuneration of the MRT.*
3 *Share awards are made in HSBC shares. Vested shares are subject to a retention period up to one year.*
4 *Indexed cash awarded to AIFM UCITS Risk takers.*

Table 45: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) ('REM2')

	2021				
	Management Body Supervisory function	**Management Body Management function**	**Other Senior Management**	**Other identified staff**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Guaranteed variable remuneration awards[1]	–	–	–	–	–
Number of identified staff	–	–	–	–	–
Total amount	–	–	–	–	–
– *of which: amount not taken into account in the bonus cap*	–	–	–	–	–
Severance payments awarded in previous periods paid in 2021	–	–	–	–	–
Number of identified staff	–	–	–	–	–
Total amount	–	–	–	–	–
Severance payments awarded during 2021[2]	–	–	–	–	–
Number of identified staff	–	–	3	23	26
Total amount			3.4	33.8	37.2
– *of which:*					
paid during the financial year	–	–	*2.4*	*25.9*	*28.3*
deferred	–	–	*1.0*	*7.9*	*8.9*
amount not taken into account in the bonus cap	–	–	–	–	–
highest payment awarded to a single person	–	–	–	*3.1*	*3.1*

1 *No guaranteed bonus awarded since 2020. They have been replaced by discretionary targeted bonuses awarded in exceptional circumstances for new hires and in the first year only. The circumstances where HSBC would offer a targeted bonus would typically involve a critical new hire and would also depend on factors such as the seniority of the individual, whether the new hire candidate has any competing offers and the timing of the hire during the performance year.*
2 *Severance payments are linked to both social plans implemented in 2021 and are based on rules embedded in a collective bargaining agreement.*

Table 46: Deferred remuneration ('REM3')

	2021							
	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments	Total amount of deferred remuneration awarded before the financial year actually Paid out in the financial year	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
	€m	€m	€m	€m	€m	€m	€m	€m
MB Supervisory function	–	–	–	–	–	–	–	–
Cash based	–	–	–	–	–	–	–	–
Shares	–	–	–	–	–	–	–	–
Shares linked instrument	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–
Other forms	–	–	–	–	–	–	–	–
MB Management function	*4.3*	*1*	3	–	–	–	1.4	0.9
Cash based	*1.9*	*1*	2	–	–	–	0.5	
Shares	*2.4*	*1*	2	–	–	–	0.9	0.9
Shares linked instrument	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–
Other forms	–	–	–	–	–	–	–	–
Oher senior management	*13.6*	*4.8*	8.9	–	–	–	4.8	3.1
Cash based	*6*	*2*	4	–	–	–	1.7	
Shares	*7.3*	*3*	4	–	–	–	3.0	3.0
Shares linked instrument	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–
Other forms	*0.6*	–	–	–	–	–	0.1	0.1
Other identified staff	*29.5*	*9.4*	20	–	–	–	9.4	6.0
Cash based	*15*	*3*	12	–	–	–	3.4	
Shares	*13*	*6*	7	–	–	–	5.7	5.7
Shares linked instrument	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–
Other forms	1.6	0.3	1.3	–	–	–	0.3	0.3
Total amount	*47.4*	*15.5*	31.9	–	–	–	15.5	10.0

Table 47: Remuneration of 1 million EUR or more per year ('REM4')

€	Number of identified staff	Identified staff that are high earners as set out in article 450 (i) CRR
€1.000.001 – €1.500.000	5	5,836,164
€1.500.001 – €2.000.000	4	6,862,484
€2.000.001 – €2.500.000	1	2,374,003

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

Table 48: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) ('REM5')

	2021									
	Management Body remuneration			Business areas						
€m	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
Total number of identified	–	3	3	46	5	2	18	38	14	126
– *of which:*										
members of the MB	–	*3*	*3*	–	–	–	–	–	–	*3*
other senior management	–	–	–	*7*	*4*	*1*	*8*	*4*	*1*	*25*
other identified staff	*0*	–	–	*39*	*1*	*1*	*10*	*34*	*13*	*98*
Total remuneration of identified staff	0	5.0	5.0	32.1	3.0	*2.5*	7.6	*7.6*	5.5	*63.3*
– *of which:*										
variable remuneration	*0*	*2.4*	*2.4*	*12.4*	*1.3*	*1.3*	*2.7*	*1.9*	*2.0*	*24.1*
fixed remuneration	*0*	*2.6*	*2.6*	*19.6*	*1.7*	*1.1*	*4.9*	*5.7*	*3.4*	*39.2*

Appendix I

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

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

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

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

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

Appendix III

Cautionary statement regarding forward-looking statements

The Capital and Risk Management *Pillar 3 Disclosures 2021* contains certain forward-looking statements with respect to HSBC Continental Europe's financial condition, results of operations, capital position and business.

Statements that are not historical facts, including statements about HSBC Continental Europe's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC Continental Europe makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

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

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

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

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