HSBC Continental Europe

1st Amendment of the Universal registration document and Interim Financial Report 2021

HSBC

Contents

Presentation of information

This amendment to the Universal Registration Document was filed on 2 August 2021 with the *Autorité des Marchés Financiers ('AMF')*, as the competent authority under Regulation (EU) n° 2017/1129, without prior approval in accordance with Article 9 of that Regulation.

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

All references to *Universal Registration Document 2020* refer to the *Universal Registration Document and Annual Financial Report 2020* filed on 24 February 2021 with the *Autorité des Marchés Financiers ('AMF')* under reference number D.21-0075.

References to 'HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries.

Reference to the Universal Registration Document

This amendment to the Universal Registration Document refers to the *Universal Registration Document and Annual Financial Report 2020* filed with the AMF on 24 February 2021 under reference number D.21-0075.

Cautionary statement regarding forward-looking statements

This amendment to the Universal Registration Document contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group. Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', 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 statement.

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

This is a translation into English of the 1st amendment of the Universal registration document of the Company issued in French and it is available on the website of the Issuer.

Highlights

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
For the period (€m)			
Profit/(loss) before tax (reported basis)	**187**	(650)	(295)
Profit/(loss) before tax (adjusted basis)[1]	**243**	(362)	31
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)[2]	**1,296**	930	1,191
Profit/(loss) attributable to shareholders of the parent company (reported basis)	**153**	(499)	(523)
At period end (€m)			
Total equity attributable to shareholders of the parent company	**7,528**	8,146	7,434
Total assets	**230,901**	261,525	237,099
Risk-weighted assets	**47,702**	49,257	46,113
Loans and advances to customers (net of impairment allowances)	**54,870**	59,228	56,225
Customer accounts	**65,334**	67,084	61,393
Capital ratios %			
Common equity tier 1	**11.9**	12.6	12.6
Tier 1	**13.5**	14.1	14.2
Total capital	**16.4**	17.0	17.3
Performance, efficiency and other ratios (annualised %)			
Annualised return on average shareholders' equity[3]	**4.1**	(11.7)	(13.3)
Pre-tax return on average risk-weighted assets (adjusted basis)	**0.5**	(0.7)	0.1
Cost efficiency ratio (adjusted basis)[4]	**81.8**	114.4	91.9
Liquidity Coverage Ratio ('LCR')	**144**	167	143
Net Stable Funding Ratio ('NSFR')[5]	**137**	129	136

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 12 to 14.*
2 *Net operating income before change in expected credit losses and other credit risk provisions is also referred to as revenue.*
3 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
4 *Adjusted cost efficiency is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit and other credit risk provisions (adjusted).*
5 *According to the regulation EU 2019/876 of the European Parliament ('CRR II').*

Performance highlights

HSBC Continental Europe's performance in the first half of 2021 was achieved in an improving economic environment, even though uncertainties related to the Covid-19 pandemic remain. While historically low and even negative interest rates continued to weigh on net interest margins, total customer revenue improved.

Reported consolidated profit before tax was EUR 187 million, up from a loss of EUR 650 million in the first half of 2020 that included the impairment and write-off of intangible assets for EUR 284 million. The increase was driven by a favourable PVIF (Present Value of In Force long term insurance business) movement, decreased charge for expected credit losses and higher revenues in Global Banking and Markets.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 1,296 million, up from EUR 930 million in the first half of 2020. The increase was driven by a favourable PVIF movement (EUR 171 million in the first half of 2021, compared with an unfavourable movement of EUR 124 million in the first half of 2020) as well as positive market impacts and client activity in Global Banking and Markets, as progress has been made on repositioning the business. Commercial Banking and Wealth and Personal Banking delivered a resilient performance with stable customer revenues.

Reported change in expected credit losses and other credit impairment charges was a release of EUR 1 million, compared with a charge of EUR 229 million in the first half of 2020. The decrease in the charge for expected credit losses reflected the improvement in the current economic environment and outlook.

Reported operating expenses were EUR 1,111 million, down from EUR 1,351 million in the first half of 2020 that included the impairment and write-off of intangible assets for EUR 284 million. Lower depreciation and amortisation, the early impacts of the restructuring of Global Banking and Markets and lower discretionary costs were partly offset by an increase of EUR 38 million in the contributions to the Single Resolution Fund compared with prior year.

Reported profit attributable to shareholders of the parent company was EUR 153 million for the half year to 30 June 2021, compared with a loss of EUR 499 million in the first half of 2020.

Presentation of activities and strategy

About HSBC Group

HSBC is one of the largest banking and financial services organisations in the world, with operations in 64 countries and territories.

Our purpose and ambition

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

HSBC Values

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

We value differences

Seeking out different perspectives.

We succeed together

Collaborating across boundaries.

We take responsibility

Holding ourselves accountable and taking the long view.

We get it done

Moving at pace and making things happen.

HSBC Group strategy

The Group's strategy focuses on four key areas: focus on our areas of strength, digitise at scale to adapt our operating model for the future, become a leaner, simpler organisation that is energised for growth and lead the transition to net zero carbon emissions.

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

Digitise at scale: digitise to improve customer experience, ensure resilience and automate to improve services and reduce costs.

Energise for growth: we are moving to a leaner organisation with a dynamic culture where the best want to work.

Transition to net zero: we aim to be the leading bank for a transition to a sustainable future, supporting our customers in their transition to a low carbon future whilst aiming to become a net-zero bank.

About HSBC Bank plc

With assets of GBP 681 billion at 30 June 2021, HSBC Bank plc is one of Europe's largest banking and financial services organisations. HSBC Bank plc employs around 16,200 people across its locations. HSBC Bank plc is the parent company of HSBC Continental Europe.

HSBC in Europe

Europe is an important part of the global economy, accounting for over a third of global trade and a quarter of global Gross Domestic Product (IHS Markit, 2020). In addition, Europe is the world's largest exporter of manufactured goods and services (European Commission, 2020).

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

The London hub consists of the United Kingdom non-ring fenced bank, which provides overall governance and management for the Europe region as a whole and is a global centre of excellence for wholesale banking for the Group. In addition, the management team directly oversees our businesses in Armenia, Channel Islands & Isle of Man, and Malta.

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

HSBC Germany Holdings GmbH serves the EU's largest economy and one of the leading export nations globally. HSBC Germany's business proposition mirrors the importance of trade and global connectivity.

HSBC Bank plc's strategy

HSBC Bank plc's strategic vision is to be the leading international wholesale bank in Europe, focused primarily on clients that value our network with a focus on transactional banking and financing. This is complemented by a targeted wealth offering, through the Wealth and Personal Banking business.

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

Looking ahead, with continued low interest rates and the unwinding of government support schemes, HSBC Bank plc expects to be operating in a more cautious environment for the remainder of the year. Whilst Covid-19 has affected the phasing of HSBC Bank plc's transformation activity, it has not altered its strategy. It involves a deep transformation of HSBC Group's business in Europe, enabling us to become simpler and more competitive. The transformation of Europe is in full implementation to focus on our strengths, digitise at scale, energise for growth, and transition to net zero. HSBC Bank plc strives to closely support customers and colleagues through all organisational change.

About HSBC Continental Europe

HSBC in Continental Europe

The EU is home to some of the best performing, forward thinking companies, ranging from entrepreneurial start-ups to multinational corporates. The EU is also the world's largest trading bloc set in a dynamic market of approximately 450 million consumers. Europe's largest trade corridor is with Asia, which accounts for more than a third (Eurostat, April 2021) of its total trade; and Europe–United States is the largest bilateral trade and investment relationship in the world (European Commission, April 2021).

HSBC Continental Europe has a clear and focused strategy that is consistent with the HSBC Group's strategy, which reflects a broader European proposition and aims to help clients achieve their goals, whether it is growing their businesses across Europe or breaking into international markets, notably through new banking products and services.

HSBC strategy implemented in Continental Europe

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

Focus on our strengths

HSBC Group's global network enables us to connect HSBC Continental Europe's clients with opportunities in Continental Europe and across the world's trade corridors. The Group's history and heritage give HSBC an unrivalled ability to provide a bridge to Asia, the Middle East and the US for European businesses. HSBC helps Asian, Middle Eastern and US businesses navigate growth opportunities in Europe.

HSBC Continental Europe is committed to helping customers in the region to thrive. With dedicated teams in France and 10 European markets, HSBC Continental Europe has extensive European capabilities across our core product strengths of Transaction Banking (traditional trade and structured trade finance, cash management and payments) and financing to serve the needs of all customers from Small Medium Enterprises ('SME's) to multinational corporates.

The programme of transformation underway in HSBC Continental Europe further supports the focus on our strengths:

The repositioning and reshaping of our wholesale operations in Continental Europe

Our Global Banking & Markets ('GBM') and Commercial Banking ('CMB') operations are implementing actions to reposition their businesses. We have repositioned our balance sheet and product offering within our GBM activities to overcome the structural challenges in the business, safeguarding HSBC Continental Europe's competitiveness, by focusing on profitable products and clients while reducing the cost base. In CMB we have reshaped our activities and support functions whilst strengthening our relationships with international clients. We are streamlining operations, improving client experience, leveraging on offshore centres of excellence, Group standard platforms and product solutions. Across HSBC Continental Europe's branches located in the European Economic Area ('EEA'), we are increasing the focus on client-related activities whilst better leveraging our Paris hub and the Group's centres of excellence. The adaptation of our new operational model will enable us to deliver a simpler organisation with a reduction of our cost base across the region.

The strategic review of our retail operations in France

The retail banking market in France has historically been dominated by cooperative financial institutions and four privately-held banks. HSBC's market share is very small in comparison. The French retail business has been loss-making for the last three years and whilst the current turnaround plan is on track, given the external environment, is not expected to deliver an accretive business in the short term. Profitability recovery would require significant investments and capital, while still delivering a Return on Equity ('RoE') below Group standards.

HSBC Continental Europe signed a Memorandum of Understanding ('MoU') with Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA (the 'Purchaser') and My Money Bank ('MMB') on 18 June 2021, regarding the potential sale of HSBC Continental Europe's retail banking business in France. My Money Group, MMB and the Purchaser are under the control, directly or indirectly, of funds and accounts managed or advised by Cerberus Capital Management L.P. The project has been presented to the to the Social and Economic Committee ('CSE' or *Conseil social et économique*).

The terms of the potential sale contemplate HSBC Continental Europe transferring the business to the purchaser with a net asset value of c. EUR 1.6 billion, subject to adjustment (upwards or downwards) in certain circumstances, for a consideration of EUR1. Should the sale proceed, it would generate an estimated pre-tax loss for HSBC Continental Europe of EUR 1.9 billion. The vast majority of the estimated loss is currently anticipated to be recognised in 2022. See Note 1(g) on page 70.

This potential transaction is an important step towards achieving HSBC Continental Europe's strategic goal of being a leading wholesale bank in Continental Europe for Corporate and Investment Banking, Markets and Private Banking, anchored in Paris, connecting customers to HSBC's global network, and providing access to Continental Europe for HSBC's customers around the world. If the potential transaction proceeds, it would be expected to close in the first half of 2023. Until such point, the business remains part of, and will be managed by HSBC Continental Europe.

The transformation of our Private Banking operations

A proposal to reorganise our Private Banking activities in Continental Europe, improving our product offering and leveraging the capabilities already in place in Continental Europe has been presented to the Social and Economic Committee.

Digitise at scale

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

Within Global Liquidity and Cash Management ('GLCM') in Europe, we are enhancing our digital functionality for our clients during this time of accelerated change. Within our HSBCnet channel, we have introduced a soft token, enabling authentication with mobile, providing a cheaper, simpler, stronger and a more flexible alternative to a security device. GLCM plans to protect and grow its customer base by enhancing existing payments and liquidity capabilities in target markets.

Global Trade and Receivable Finance ('GTRF') Europe intends to build upon HSBC's leadership in trade finance whilst driving sustainable and profitable growth. GTRF Europe is an integral part of the Global Trade Transformation Programme. The programme is increasing investment in new product platforms (including blockchain) and deployment of automated Anti-Money Laundering and Sanctions controls which will result in improved risk management and efficiency.

Energise for growth

Inspire a dynamic culture

In February 2021 the Group launched our refreshed Purpose and Values. Since then, we have engaged colleagues across the organisation to apply our values in how we work and how we serve customers.

We are inspiring a dynamic and inclusive culture, and empowering our people by helping them develop future skills. We are dedicated to building a diverse, inclusive and connected workforce where everyone feels a sense of belonging and can learn from and with each other. This diversity enables us to better serve the communities in which we operate and to be creative and generate new ideas. We are committed to fostering a supportive environment with a focus on mental health and wellbeing. Where possible, we support our staff who want to adopt flexible and alternative ways of working, including working from home, part-time roles and job sharing.

Champion inclusion

In February 2021, we committed to increase diverse representation across our organisation. HSBC Group set targets to achieve more than 35 per cent of female senior leadership.

We are raising awareness of inclusion among committees and Diversity and Inclusion observatories within businesses and functions, managers and employees.

In France, we are also working with 50/50 Partner of Balance to develop an engaging gender diversity charter alongside other large financial institutions through *Financi'Elles*. On the theme of cultural diversity, we have set ourselves qualitative objectives of awareness-raising actions alongside 50/50 Partner of Balance and challenge our processes. As part of our disability policy, we are continuing our actions within our legal obligations by country and contributing to the HSBC pilot project group on the development of a cross-functional disability policy in all areas (accessibility, customer offer, adjustments and retention in employment, recruitment/mobility, etc.). On LGBT+, we are working with our France Employee Resource Group ('ERG') Pride, and aim to work closely with the new European ERG.

Develop future skills

A Group-wide campaign on Future Skills will take place in the following months so as to re-energise and engage colleagues in a focused way. During the second half of 2021, we will encourage employees to act by trying the newer tools and particularly Degreed, an integrated training platform. The challenge is to bring new learning, new technologies to help us develop the skills and capabilities we need. Our Future Skills curriculum is being extended and people may learn on growth mindset, resilience and virtual collaboration.

We are in the process of upgrading our talent profile and building future skills. We continue to invest in deepening digital, professional and enabling skills across the organisation.

In France, the resilience programme is an additional programme that helps people and managers during the transformation through conferences, webinars and exchanges with peers. It consists of well-being workshops, inspirational conferences and co-peer's discussions to encourage an inclusive and dynamic culture.

Transition to net zero

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

Becoming a net zero bank

In 2020, HSBC Continental Europe set out ambitions to be net zero in our operations and supply chain by 2030 or sooner, and to align our financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. To help achieve our ambitions, the Group passed a climate resolution in the Annual General Meeting in May 2021, detailing our approach to the net zero transition. The resolution was backed by 99.7 per cent of our shareholders. The Group joined the Net Zero Banking Alliance, which brings collaboration and consistency across the banking sector to collectively reach the Paris Agreement goals. In Continental Europe, we have started our Net Zero journey assessing our exposure to thermal coal at 0.16 per cent of our total loan book for HSBC Continental Europe at year end 2020. We are having discussions with our customers from the six high transition risk sectors which represent 20 per cent of our total loan book in Europe.

Supporting our customers

HSBC Group's aim is to provide USD 750 billion to USD 1 trillion of sustainable financing and investments by 2030 to help our customers transition to lower carbon emissions. HSBC Continental Europe supports its clients, corporates, retail and investors, in transitioning to a low carbon economy, through the deployment of dedicated products and services. We have a dedicated origination team which works with our Commercial Banking customers to structure sustainable finance transactions, including through green and impact lending. This helps HSBC Continental Europe to align its financing and investment portfolio to the standards set by the Paris Agreement. In 2021, HSBC Continental Europe strengthened its '5E' multi-partnership one-stop shop in France, in order to support its corporate clients in their sustainable journey, towards energy efficiency and low-carbon transition, duty of care and Corporate Social Responsability ('CSR') strategy with EcoVadis, EY, *Economie d'Energie*, Eco-Act and Ethifinance.

Unlocking new climate solutions

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

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

Our Global Businesses

The Group manages its products and services through its three global businesses: Global Banking and Markets ('GBM'), Commercial Banking ('CMB'), and Wealth and Personal Banking ('WPB'); and Corporate Centre (Corporate Centre comprises Central Treasury, certain legacy assets, central stewardship costs, and interests in our associates and joint ventures). HSBC Continental Europe's businesses are supported by Digital Business Service, and 11 global functions, including Risk, Finance, Compliance, Legal, Marketing and Human Resources.

Global Banking and Markets ('GBM')

HSBC Global Banking and Markets delivers tailored financial solutions to major government, corporate and institutional clients worldwide. We provide a comprehensive suite of services across lending, advisory and capital markets, trade services, research, securities services and global liquidity and cash management.

Operating across all HSBC Continental Europe markets, GBM brings together relationship managers and product specialists, to deliver financial solutions customised to suit our clients' business specific growth ambitions and financial objectives. We continue to work closely with colleagues in CMB, to provide a range of tailored products and seamless services that meet the needs of clients across the bank.

GBM operates as an integral part of the global business and also contributes significant revenues to other regions through our European client base. HSBC Continental Europe continues to play its role as the strategic platform for euro-denominated rates products. Priorities for GBM in Continental Europe are to be positioned as a top bank in key advisory and financing mandates and help clients seize international growth opportunities, leveraging its expertise and global network. We remain committed to deepening client relationships, and improving synergies across HSBC global businesses. GBM is underpinned by a focus on the highest standards of conduct and financial crime risk management.

We are implementing actions to reposition the businesses. We have repositioned our balance sheet and diversified our product offering, including embedding ESG elements to existing products, whilst focusing on clients that value our international network. Please refer to section 'HSBC strategy implemented in Continental Europe' in page 5 for further information.

Commercial Banking ('CMB')

HSBC Continental Europe's Commercial Banking business serves businesses ranging from small enterprises to multinational corporates operating both globally and within Continental Europe. Our global network of relationship managers and product specialists works closely to meet customer needs, from term loans to trade solutions. In Continental Europe, we are fully committed to helping businesses navigate change and seize export opportunities. With major operations in France and across our branches, including full-service centres in hubs such as Ireland and the Netherlands, we provide corporates with the means to consolidate and simplify their European operations. Our enhanced digital offering gives customers greater visibility over their liquidity position and unlocks efficiencies in their treasury structures. We work closely with our colleagues in Global Banking and Markets to provide customers with access to capital financing, advisory and markets solutions. In addition, by working closely with our Wealth and Personal Banking colleagues, we offer a comprehensive range of employee and private banking services. We also provide a comprehensive range of sustainable investment products to help our customers on their ESG journeys.

Commercial Banking in Continental Europe continues to simplify its operations to help improve customer experience, and with the repositioning of capital resources to our strategic activities and clients, will deliver value to the HSBC Group. Please refer to section 'HSBC strategy implemented in Continental Europe' in page 5 for further information.

Wealth and Personal Banking ('WPB')

In France and Greece, WPB helps more than 0.9 million customers with their financial needs through Retail Banking, Wealth Management, Insurance, Asset Management and Private Banking. HSBC Continental Europe offers a full range of products and services to meet the personal banking and wealth management needs of customers from personal banking to ultra-high net worth individuals.

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

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

HSBC Continental Europe signed a Memorandum of Understanding with Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA (the 'Purchaser') and My Money Bank ('MMB') on 18 June 2021, regarding the potential sale of HSBC Continental Europe's retail banking business in France. Alongside this potential sale, a proposal to build and reorganise our Private Bank activities in Continental Europe has also been presented to the Social and Economic Committee. Please refer to section 'HSBC strategy implemented in Continental Europe' in page 5 for further information.

Supporting our stakeholders through Covid-19

The Covid-19 outbreak has created a great deal of uncertainty and disruption for the people, businesses and communities we serve around the world. It is affecting everyone in different ways. We are tailoring our response to the different circumstances and situations in which our stakeholders find themselves.

Customers

The Covid-19 outbreak has posed significant challenges to our customers worldwide. Our immediate priority is to do what we can to provide them with support and flexibility. This has included offering payment relief, assisting our customers to restructure their balance sheets and providing access to local government lending schemes. We continued to grant new loans under the French Government guarantee scheme and HSBC specific schemes. At 30 June 2021, lending under customer relief programmes stood at EUR 5 billion. Business continuity and high service quality have been ensured throughout the period, with most of our retail branches remaining open (following strict health guidelines protecting our customers and employees) and enhanced technology to enable them to interact with us through digital tools (e-signature, video calls, webinars). Please refer to section 'Customer relief programme' on page 36 for further details.

Employees

The Covid-19 outbreak tested our employees in many ways and they adapted quickly to the fast-changing environment. We provided new and enhanced support to ensure the well-being of employees and have encouraged a culture of looking out for each other. Our priorities for our employees are mental health and flexible working.

In France, a new agreement has been signed on work from home and a remote working campaign was launched in May 2021 for employees to choose their remote working options. It illustrates our commitment to new and more flexible ways of working with the Future of Work strategy. Specific training and events have been planned to teach employees and managers on the new hybrid organisation.

Regulators and governments

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

Geopolitical, economic and regulatory background and outlook

Economic background

The pandemic has remained a drag on global economic activity in the first half of 2021 but progress in the vaccination campaign has initiated a significant but still unequal global recovery.

In Europe, economic activity fell in most of the main countries during the first quarter, due to the measures put in place to contain the pandemic, as the Alpha variant (first detected in the United Kingdom) triggered a new severe Covid-19 wave across the continent. In France, Gross Domestic Product ('GDP') fell by -0.1 per cent quarter on quarter in the first quarter of 2021, after having declined -1.5 per cent in the fourth quarter of 2020 due to the national lockdown implemented in November 2020.

However, progress in the vaccination campaign has led to a significant decline in infection rates and in hospital admissions during the second quarter of 2021. Against that backdrop, restriction measures have been gradually relaxed in most of countries. This reopening process has triggered a strong economic rebound according to high-frequency data (credit card transactions, mobility indicators) and business and consumer confidence surveys. Even in France, GDP is expected to recover in the second quarter in spite of the one-month long national lockdown implemented on 3 April 2021. Since early May 2021, the reopening process has been relatively swift, with conditions getting closer to normality at the end of the quarter.

In spite of this more favourable backdrop, the ECB has maintained a very accommodative stance. It decided to significantly accelerate the pace of its asset purchases under Pandemic Emergency Purchase Programme ('PEPP') in March 2021 and announced in June 2021 that this higher pace of purchase will be maintained for the third quarter of 2021. Inflation also rose in the Eurozone but the move was entirely driven by base effects on energy prices and underlying price pressures have remained subdued.

GDP growth has been especially solid in the United States, thanks to the gradual reopening in the economy but also the significant fiscal support provided by the stimulus plans adopted by the Congress in December 2020 and in March 2021. Direct subsidies to households have provided a boost to purchasing power and led to a strong rise in consumption. At the same time, inflation has picked up sharply, partly due to base effects. In addition, factors such as higher car prices due to supply bottlenecks and the reopening effects on the prices of some consumer services, have also contributed to the increase. These developments have led to higher volatility in bond markets, reflecting higher uncertainty on the evolution of the US Federal Reserve ('Fed') monetary policy. Nevertheless, the Federal Open Market Committee ('FOMC') has generally maintained a dovish tone as it views the rise in inflation being transitory and as employment still remains far below its pre-pandemic levels. Granted, at its meeting in June 2021, the Fed has started to discuss about the modalities of a tapering of its asset purchases but the prudent message delivered by his president suggests that an announcement is not yet imminent.

Finally, the economic background has been less supportive in most of emerging countries. Asia (especially India and ASEAN countries) and Latin America have been hit by a more severe Covid-19 wave in the second quarter of the year, while the progress in vaccination campaigns has generally lagged relative to developed countries. In addition, concerns over inflation have led several central banks to raise significantly their policy rates, especially in Brazil and in Russia. Even in mainland China, economic momentum showed signs of moderation, reflecting a more balanced economic policy from authorities in terms of support to activity.

Outlook for the second half of 2021

Further progress in the vaccination campaign is expected to strengthen the global recovery in the second half of the year. The pace of vaccination has also improved recently in Asia and in Latin America, which is a positive sign for the consumption outlook.

New virus variants represent the main downside risk on this central scenario. The Delta variant has already led to a significant rebound in new cases in the United Kingdom and in some continental Europe countries like Spain and Portugal. Nevertheless, recent studies suggest that the main vaccines reduce the risks of severe cases, meaning that a new wave may not necessarily lead to new lockdown measures.

Regulatory environment

Covid-19

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

To reflect that, the EU has for instance amended the Securitisation

Regulation and Capital Requirements Regulation ('CRR') enacted in April 2021, introducing a specific treatment for Non Performing Exposures ('NPE') securitisation as well as expanding the Simple, Transparent and Standardised ('STS') securitisation framework to synthetic transactions. However, the temporary measure allowing banks to exclude certain central bank exposures from their leverage exposure expired in June 2021. In light of this, the ECB declared the same month that exceptional macroeconomic circumstances continue to justify such measure, and renewed the measure until 31 March 2022. Under these new rules (entering into force in June 2021), banks who make use of this renewed exemption will have to recalibrate upwards their 3 per cent minimum leverage ratio requirement.

In July 2021, the ECB announced that, in light of the latest macroeconomic projections, restrictions imposed on capital distribution will end after 30 September 2021 when the ECB current recommendation is due to expire.

Amendments to the Capital Requirements Regulation ('CRR2') and 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 Credit Valuation Adjustment ('CVA') framework. The package is scheduled to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. The final standards will need to be transposed into the relevant local law before coming into effect.

The CRR2 represents the first tranche of changes to the regulatory framework to implement the Basel III Reforms, including the changes to market risk rules under the Fundamental Review of the Trading Book ('FRTB'), revisions to the Standardised Approach for measuring Counterparty Risk ('SA-CCR'), amendments to the large exposures rules, the new leverage ratio rules and the implementation of the Net Stable Funding Ratio ('NSFR').

In April 2021, the European Commission was mandated to review the calibration of the SA-CCR (Standardized Approach for measuring Counterparty Credit Risk) by the end of June 2021 in light of international level playing field considerations. With the entry into force of significant elements in June 2021, the remaining items of CRR2 that have not been yet entered into force, are the reporting requirements under new FRTB rules and the new leverage ratio buffer applicable to Global Systemically Important Institutions ('G-SIIs'). The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation. The subsequent EU implementation will be subject to an extensive negotiation process with the EU Council and Parliament.

ESG related disclosures requirements

The European Banking Authority ('EBA') launched a consultation in March on the Implementation Technical Standard ('ITS') of the future ESG disclosure requirements introduced by CRR2. The consultation closed in June 2021 and the final standards will be published later this year. The first disclosures will have to be performed by banks in 2023 based on 2022 data.

Article 8 of the EU Taxonomy Regulation requires undertakings, including banks, to report how and to what extent their activities qualify as environmentally sustainable. The European Commission adopted in July 2021 the delegated act supplementing these disclosure requirements, which banks will have to perform for the first time from 1 January 2022 based on December 2021 data.

Own Funds and Eligible Liabilities

The EBA published in May 2021 its final draft Regulatory Technical Standards ('RTS') on own funds and eligible liabilities. The RTS affect the operation of the prior permission process for the redemption of instruments and the assessment of the eligibility of certain own funds and eligible liabilities instruments and their current and future terms and conditions.

Also in May 2021, the Single Resolution Board ('SRB') published a revised policy on Minimum Requirements for own funds and Eligible Liabilities ('MREL') which notably introduces from 1 January 2022 a new MREL Maximum Distributable Amount ('M-MDA') to restrict banks' earnings distribution in case of MREL breaches.

Other developments

The ECB announced in May 2021 that it will start to supervise certain securitisation requirements which have been assessed as prudential in nature, namely the risk retention, transparency and ban of re-securitisation requirements.

In June 2021, the ECB launched a consultation on its revised policies for options and discretions available under CRR. The revision aims notably to update the ECB policies in light of CRR2.

France High Council for Financial Stability ('HCSF') decided in June 2021 to maintain the Countercyclical Buffer rate ('CCyB') at its current level of 0 per cent and indicated it does not foresee an increase in the rate before end-2022 at the earliest. The HCSF also decided to translate guidance on French home loan production issued on January into legally binding requirements.

Corporate Governance

Changes in the governance

At its meetings held on 30 April and 9 June 2021, the Board of Directors of HSBC Continental Europe decided to appoint Jean Beunardeau as Chairman of the Board, replacing Samir Assaf who stepped down from his mandates as Chair of the Board and Director, and Andrew Wild as Chief Executive Officer, replacing Jean Beunardeau, and Director effective from 15 July 2021, noting that Chris Davies remained *Directeur Général Délégué*.

The General Management is assisted by an Executive Committee whose membership was as follows as at 15 July 2021:

Andrew Wild	Chief Executive Officer
Chris P. Davies	Deputy Chief Executive Officer
Anne-Lise Bapst	Head of Communications
Andrew Beane	Head of Commercial Banking
Frédéric Coutant	Co-Head of Banking
Marwan Dagher	Head of Markets and Securities Services
François Essertel	Head of Private Banking
Thuy-Tien Gluck	Head of Corporate Sustainability
Lisa Hicks	Head of Strategy and Planning
Marc de Lapérouse	Head of Legal
Francois Mongin	Head of Internal Audit
Camille Olleon	Head of Human Resources
Matteo Pardi	Head of Global Asset Management
Geneviève Penin	Head of Corporate Governance & Secretariat
Emmanuel Rémy	Chief Risk Officer
Jean-Manuel Richier	Co-Head Banking
Laurence Rogier	Head of Insurance
Aram Shoukourian	Interim Chief Operating Officer
Simon Spilsbury	Head of Compliance
Joseph Swithenbank	Chief Financial Officer
Thomas Vandeville	Head of Retail Banking and Wealth Management

HSBC Continental Europe Consolidated Results

Summary consolidated income statement

	Half-year to		
	30 Jun 2021 €m	30 Jun 2020 €m	31 Dec 2020 €m
Net interest income	**480**	534	519
Net fee income	**457**	437	421
Net income from financial instruments held for trading or managed on a fair value basis	**90**	62	10
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**787**	(662)	823
Changes in fair value of long-term debt and related derivatives	**(6)**	(2)	(2)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**19**	30	57
Gains less losses from financial investments	**17**	7	7
Net insurance premium income	**875**	661	706
Other operating income/(expense)	**217**	(86)	170
Total operating income	**2,936**	981	2,711
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(1,640)**	(51)	(1,520)
Net operating income before change in expected credit losses and other credit impairment charges	**1,296**	930	1,191
Change in expected credit losses and other credit impairment charges	**1**	(229)	(60)
Net operating income	**1,297**	701	1,131
Total operating expenses	**(1,111)**	(1,351)	(1,426)
Operating profit/(loss)	**186**	(650)	(295)
Share of profit in associates and joint ventures	**1**	—	—
Profit/(loss) before tax	**187**	(650)	(295)
Tax expense	**(34)**	150	(230)
Profit/(loss) for the period	**153**	(500)	(525)
– shareholders of the parent company	**153**	(499)	(523)
– non-controlling interests	**—**	(1)	(2)

Reported performance

Net interest income was EUR 480 million, down from EUR 534 million in the prior half year. Interest income decreased from EUR 930 million to EUR 829 million driven by the persistent low and negative interest rates environment, coupled with decreasing loans volumes. This was partly offset by the favourable decrease in interest expense from EUR 396 million in the first half of 2020 to EUR 349 million in the first half of 2021.

Net fee income was EUR 457 million in the first half of 2021, up from EUR 437 million in the first half of 2020. The increase was driven by GBM supported by favourable fees on Equities, Global Liquidity and Cash Management, Structured Finance and Capital Markets activities and by WPB with increased fee income from wealth activities reflecting the financial markets recovery.

Net income from financial instruments held for trading or managed on a fair value basis was EUR 90 million up from EUR 62 million in the first half of 2020. This trend resulted mainly from the non recurrence in 2021 of an operational loss on Markets and Securities Services ('MSS') in 2020 partly offset by unfavourable market variation of options instruments held by the insurance company and by Markets Treasury.

Net income from assets and liabilities of insurance measured at fair value through profit and loss was EUR 787 million up from EUR -662 million in the first half of 2020. This reflected the change in the market value of assets held by the insurance company on behalf of its customers with respect to both unit-linked policies and Eurofund contracts.

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss was EUR 19 million, down by EUR 11 million compared to the first half of 2020.

Gain less losses from financial investments was EUR 17 million up from EUR 7 in the first half of 2020.

Net Insurance premium income was EUR 875 million in the first half of the year, up from EUR 661 million in the first half of 2020. This increase was related to improved marketing conditions and an increase in the proportion of unit-linked investments.

Other operating income was EUR 217 million versus EUR -86 million in the first half of 2020, mainly reflecting the change in PVIF ('Present Value of In-force insurance long-term business'), driven by better market conditions as compared to negative impact in the first half of 2020.

Net insurance claims and movements in liabilities to policyholders were EUR -1,640 million in the first half of 2021, down from EUR -51 million in the first half of 2020, mainly driven by the change in the market value of assets recognised at fair value for insurance unit-linked contracts and by the adverse market effect on the deferred participation supported by the insurance company.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 1,296 million, up from EUR 930 million in the first half of 2020. This was the result of the favourable impact of improved market conditions on PVIF and wealth management activities and resilient Global Banking and CMB revenues. This was partly offset by the persistence of a low rates environment that continues to impact the net interest income of CMB and WPB and by the impacts of the strategic initiatives on GBM revenue.

Change in expected credit losses and other credit impairment charges was a EUR 1 million release compared to a charge of EUR -229 million in the first half of 2020. The decrease, particularly in CMB and GBM, reflected an improvement of the current and forward-looking economic conditions as European economies have progressively reopened.

Operating expenses were EUR 1,111 million in the first half of 2021, down from with EUR 1,351 million in the first half of 2020.

The decrease was mainly driven by the non recurrence in 2021 of impairments and write-offs of software intangible assets for EUR 284 million, lower depreciation and amortisation, lower administrative expenses and savings related to strategic initiatives, despite the increased contribution to the Single Resolution Fund from EUR 106 million to EUR 144 million this year.

Consolidated Profit before tax was EUR 187 million, up from a loss of EUR 650 million for the first half of 2020.

Net profit attributable to shareholders of the parent company was EUR 153 million in the first half of 2021.

Adjusted performance

Non-GAAP financial measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRSs') as detailed in the Financial Statements starting on page 63. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered alternative performance measures.

All alternative performance measures are described and reconciled to the closest reported financial measure when used.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the period-on-period effects of significant items that distort period-on-period comparisons.

We use 'significant items' to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance. These items, which are detailed below, are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business.

We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses period-on-period performance.

Reconciliation of reported and adjusted performance is presented on pages 12 and 13.

Basis of preparation

Global businesses are our reportable segments under IFRS 8.

A description of the Global businesses is provided on pages 9 and 10 of the *Universal Registration Document 2020*.

By operating segment

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

	Half-year to 30 Jun 2021				
	Wealth and Personal Banking	**Commercial Banking**	**Global Banking and Markets**	**Corporate Centre**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Reported revenue	**544**	**363**	**383**	**6**	**1,296**
Significant revenue items	**—**	**—**	**28**	**(2)**	**26**
Adjusted revenue	**544**	**363**	**411**	**4**	**1,322**
	Half-year to 30 Jun 2020				
Reported revenue	217	356	338	19	930
Significant revenue items	—	—	(9)	—	(9)
Adjusted revenue	217	356	329	19	921
	Half-year to 31 Dec 2020				
Reported revenue	405	344	326	116	1,191
Significant revenue items	—	—	40	(99)	(59)
Adjusted revenue	405	344	366	17	1,132

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

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Half-year to 30 Jun 2021				
	€m	**€m**	**€m**	**€m**	**€m**
Reported operating expenses	**(399)**	**(241)**	**(400)**	**(71)**	**(1,111)**
Significant cost items	**2**	**(13)**	**2**	**39**	**30**
– impairment of Goodwill, Intangibles and Tangibles	**—**	**—**	**—**	**(1)**	**(1)**
– restructuring cost and other significant items	**2**	**(13)**	**2**	**40**	**31**
Adjusted operating expenses	**(397)**	**(254)**	**(398)**	**(32)**	**(1,081)**
	Half-year to 30 Jun 2020[1]				
Reported operating expenses	(457)	(257)	(424)	(213)	(1,351)
Significant cost items	36	28	44	189	297
– impairment of Goodwill, Intangibles and Tangibles	36	28	44	176	284
– restructuring cost and other significant items	—	—	—	13	13
Adjusted operating expenses	(421)	(229)	(380)	(24)	(1,054)
	Half-year to 31 Dec 2020				
Reported operating expenses	(461)	(300)	(451)	(214)	(1,426)
Significant cost items	2	82	140	161	385
– impairment of Goodwill, Intangibles and Tangibles	—	2	9	77	88
– restructuring cost and other significant items	2	80	131	84	297
Adjusted operating expenses	(459)	(218)	(311)	(53)	(1,041)

1 *During the second half of 2020, management reviewed the allocation policy of the significant software impairment and write-offs resulting in a change in the reported impairment cost by business. The amounts in the first half of 2020 have been represented to reflect this change.*

Net impact on profit before tax by business segment

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Half-year to 30 Jun 2021				
	€m	**€m**	**€m**	**€m**	**€m**
Reported profit/(loss) before tax	**155**	**89**	**7**	**(64)**	**187**
Significant revenue items	**—**	**—**	**28**	**(2)**	**26**
Significant cost items	**2**	**(13)**	**2**	**39**	**30**
Adjusted profit/(loss) before tax	**157**	**76**	**37**	**(27)**	**243**
Net impact on reported profit and loss	**2**	**(13)**	**30**	**37**	**56**
	Half-year to 30 Jun 2020[1]				
Reported profit/(loss) before tax	(261)	(2)	(192)	(195)	(650)
Significant revenue items	—	—	(9)	—	(9)
Significant cost items	36	28	44	189	297
Adjusted profit/(loss) before tax	(225)	26	(157)	(6)	(362)
Net impact on reported profit and loss	36	28	35	189	288
	Half-year to 31 Dec 2020				
Reported profit/(loss) before tax	(57)	(45)	(96)	(97)	(295)
Significant revenue items	—	—	40	(99)	(59)
Significant cost items	2	82	140	161	385
Adjusted profit/(loss) before tax	(55)	37	84	(35)	31
Net impact on reported profit and loss	2	82	180	62	326

1 *During the second half of 2020, management reviewed the allocation policy of the significant software impairment and write-offs resulting in a change in the reported impairment cost by business. The amounts in the first half of 2020 have been represented to reflect this change.*

Adjusted profit/(loss) for the period

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Half-year to 30 Jun 2021				
	€m	**€m**	**€m**	**€m**	**€m**
Net operating income before change in expected credit losses and other credit impairment charges	**544**	**363**	**411**	**4**	**1,322**
Change in expected credit losses and other credit impairment charges	**10**	**(33)**	**24**	**—**	**1**
Net operating income	**554**	**330**	**435**	**4**	**1,323**
Total operating expenses	**(397)**	**(254)**	**(398)**	**(32)**	**(1,081)**
Operating profit/(loss)	**157**	**76**	**37**	**(28)**	**242**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**1**	**1**
Adjusted profit/(loss) before tax	**157**	**76**	**37**	**(27)**	**243**
	Half-year to 30 Jun 2020				
Net operating income before change in expected credit losses and other credit impairment charges	217	356	329	19	921
Change in expected credit losses and other credit impairment charges	(21)	(101)	(107)	—	(229)
Net operating income	196	255	222	19	692
Total operating expenses	(421)	(229)	(380)	(24)	(1,054)
Operating profit/(loss)	(225)	26	(158)	(5)	(362)
Share of profit in associates and joint ventures	—	—	—	—	—
Adjusted profit/(loss) before tax	(225)	26	(158)	(5)	(362)
	Half-year to 31 Dec 2020				
Net operating income before change in expected credit losses and other credit impairment charges	405	344	366	17	1,132
Change in expected credit losses and other credit impairment charges	(1)	(89)	30	—	(60)
Net operating income	404	255	396	17	1,072
Total operating expenses	(459)	(218)	(311)	(53)	(1,041)
Operating profit/(loss)	(55)	37	85	(36)	31
Share of profit in associates and joint ventures	—	—	—	—	—
Adjusted profit/(loss) before tax	(55)	37	85	(36)	31

Adjusted performance

Adjusted profit before tax was EUR 243 million for the first half of 2021, compared with the EUR 362 million loss recorded in the first half of 2020. This increase was mainly driven by a favourable PVIF movement, improved revenue from GBM, sharply lower expected credit losses and lower depreciation and amortisation, partly offset by higher contributions to the Single Resolution Fund.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 1,322 million, up from EUR 921 million in the first half of 2020. The increase was mainly related to the favourable PVIF movement and increased GBM revenue including the non-recurrence in 2021 of an operational loss in Markets and Securities Services.

Change in expected credit losses and other credit impairment charges was a EUR 1 million release compared to a charge of EUR 229 million in the first half of 2020. The decrease, particularly in CMB and GBM, reflected an improvement of the current and forward-looking economic conditions as European economies have progressively reopened.

Adjusted operating expenses totalled EUR 1,081 million in the first half of 2021, compared with EUR 1,054 million in 2020. This was mainly driven by increased contributions to the Single Resolution Fund, partly offset by lower depreciation and amortisation and lower discretionary costs.

Wealth and Personal Banking ('WPB')

Adjusted profit before tax was EUR 157 million, EUR 382 million higher than prior year driven by a favourable PVIF movement, lower Expected Credit Losses due to Covid-19 related overlays recognised in the first half of 2020 and lower operating expenses.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 544 million compared to EUR 217 million in June 2020, mainly as a result of the favourable market impact on life insurance manufacturing (PVIF movement increasing by EUR 296 million). Interest income was lower compared to prior year as historically low interest rates continued to weigh on deposits, despite higher balances and lower funding costs. Net fee income increased compared to prior year, driven by asset and wealth management activities supported by favourable market impacts.

Change in expected credit losses and other credit impairment charges decreased by EUR 31 million due to improved credit delinquency compared to overlays taken during the first half of last year following the Covid-19 outbreak.

Adjusted operating expenses decreased by EUR 24 million to EUR 397 million primarily due to the efficiency gains in the business and continued cost discipline.

Loans and advances to customers were EUR 24 billion at June 2021, stable on prior year. Total Assets Under Management from customers were EUR 61.4 billion at June 2021, an increase of 4.2 per cent compared to June 2020. The growth was mainly driven by an increase in customer deposits and higher wealth assets under management, which benefited from the market recovery. Wealth and Personal Banking business customer deposits at EUR 22 billion grew by 3 per cent compared to June 2020 balances.

Commercial Banking ('CMB')

Adjusted profit before tax was EUR 76 million up from EUR 26 million in 2020.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 363 million, an increase of EUR 7 million compared to the first half of 2020 despite the impact of historically low interest rates.

Adjusted change in expected credit losses and other credit impairment charges was EUR 33 million, down from EUR 101 million in 2020 reflecting an improvement in the economic outlook.

Adjusted operating expenses increased by EUR 25 million to EUR 254 million, mainly due to higher contributions to the Single Resolution Fund.

Loans and advances to customers were EUR 17.5 billion at June 2021, a decrease of 11 per cent compared to June 2020 reflecting lower drawings on short term loans and revolving credit facilities.

Deposits grew 8 per cent to EUR 28.3 billion, with significant inflows linked to the Covid-19 pandemic.

Global Banking and Markets ('GBM')

Adjusted profit before tax was EUR 37 million compared to a loss of EUR 158 million in the first half of 2020.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 411 million, an increase of EUR 82 million compared to prior year. The increase was driven by higher revenue in Markets and Securities Services, with a strong performance in cash equities and the non-recurrence of an operational loss recognised in the first half of 2020 partly offset by lower revenue in global debt markets. Banking revenue also increased driven by corporate lending, Global Liquidity and Cash Management, Structured Finance and capital markets.

Change in expected credit losses and other credit impairment charges was a net release of EUR 24 million compared to a charge of EUR 107 million in 2020 reflecting an improvement in the economic outlook and Stage 3 provision releases.

Adjusted operating expenses were EUR 398 million, an increase of EUR 18 million compared to prior year. This was driven by higher contributions to the Single Resolution Fund, partly offset by lower front office costs following strategic cost actions taken in 2020.

Loans and advances to customers were EUR 13.7 billion at June 2021, a decrease of 15 per cent compared to June 2020 due to lower corporate lending and receivables finance, partly offset by an increase in structured finance transactions.

Customer deposits grew by EUR 1.6 billion to EUR 15.6 billion, driven by increased current account balances and the transfer of accounts held with HSBC Securities Services (HSS) from HSBC Bank plc.

HSBC Continental Europe is now the booking centre for debt, equity and leveraged finance underwriting following the UK's withdrawal from the EU.

Corporate Centre

Adjusted loss before tax was a EUR 27 million loss compared to a EUR 5 million loss in the first half of 2020.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 4 million for the first half of 2021, compared with EUR 19 million in 2020, reflecting lower recharges to other entities in HSBC Group.

Adjusted operating expenses were EUR 32 million for the first half of 2021 compared to EUR 24 million in 2020.

Profit before tax by country

	Half-year to 30 Jun 2021				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	€m	€m	€m	€m	€m
France	158	44	(36)	(60)	106
Belgium	—	2	1	—	3
Czech Republic	—	6	1	—	7
Greece	(3)	(1)	16	(1)	11
Ireland	—	10	6	(2)	14
Italy	—	2	11	(1)	12
Luxembourg	—	—	(7)	—	(7)
Netherlands	—	14	2	—	16
Poland	—	5	4	—	9
Spain	—	7	10	—	17
Sweden	—	—	(1)	—	(1)
United Kingdom	—	—	—	—	—
Others	—	—	—	—	—
Profit/(loss) before tax	**155**	**89**	**7**	**(64)**	**187**

	Half year to 30 Jun 2020[1]				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	€m	€m	€m	€m	€m
France	(249)	(61)	(186)	(195)	(691)
Belgium	—	2	1	—	3
Czech Republic	—	10	1	—	11
Greece	(12)	1	(23)	—	(34)
Ireland	—	11	2	—	13
Italy	—	2	5	—	7
Luxembourg	—	—	2	—	2
Netherlands	—	18	2	—	20
Poland	—	5	5	—	10
Spain	—	10	5	—	15
Sweden	—	—	—	—	—
United Kingdom	—	—	(2)	—	(2)
Others	—	—	(4)	—	(4)
Profit/(loss) before tax	(261)	(2)	(192)	(195)	(650)
	Half year to 31 Dec 2020				
France	(54)	(87)	(106)	(75)	(322)
Belgium	—	(1)	—	—	(1)
Czech Republic	—	6	—	(1)	5
Greece	(3)	(1)	16	(1)	11
Ireland	—	6	4	(1)	9
Italy	—	(1)	(3)	(6)	(10)
Luxembourg	—	—	(8)	(1)	(9)
Netherlands	—	21	2	—	23
Poland	—	5	5	(1)	9
Spain	—	7	9	(11)	5
Sweden	—	—	(2)	—	(2)
United Kingdom	—	—	2	—	2
Others	—	—	(15)	—	(15)
Profit/(loss) before tax	(57)	(45)	(96)	(97)	(295)

1 *During the second half of 2020, management reviewed the allocation policy of the significant software impairment and write-offs resulting in a change in the reported impairment cost by business. The amounts in the first half of 2020 have been represented to reflect this change.*

Review of business position

Summary consolidated balance sheet

	30 Jun 2021	31 Dec 2020
	€m	€m
Total assets	**230,901**	237,099
Cash and balances at central banks	**40,460**	29,508
Trading assets	**15,593**	12,954
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**12,810**	11,648
Derivatives	**41,744**	56,475
Loans and advances to banks	**6,588**	6,781
Loans and advances to customers	**54,870**	56,225
Reverse repurchase agreements – non-trading	**17,481**	21,522
Financial investments	**16,360**	19,167
Other assets	**24,992**	22,816
Assets held for sale	**3**	3
Total liabilities	**223,348**	229,640
Deposits by banks	**20,271**	17,204
Customer accounts	**65,334**	61,393
Repurchase agreements – non-trading	**6,456**	10,984
Trading liabilities	**19,908**	17,828
Financial liabilities designated at fair value	**16,239**	16,892
Derivatives	**40,232**	55,714
Debt securities in issue	**4,043**	3,605
Liabilities under insurance contracts	**23,529**	23,228
Other liabilities	**27,336**	22,792
Total equity	**7,553**	7,459
Total shareholders' equity	**7,528**	7,434
Non-controlling interests	**25**	25

Balance sheet information

	Wealth and Personal Banking €m	Commercial Banking €m	Global Banking and Markets €m	Corporate Centre €m	Total €m
As at 30 Jun 2021					
Loans and advances to customers	**24,283**	**17,475**	**13,684**	**(572)**	**54,870**
Customers accounts	**21,918**	**28,329**	**15,633**	**(546)**	**65,334**
As at 31 Dec 2020					
Loans and advances to customers	24,204	18,075	14,523	(577)	56,225
Customers accounts	21,038	27,023	14,065	(733)	61,393

HSBC Continental Europe's consolidated balance sheet had total assets of EUR 230.9 billion at 30 June 2021, compared to EUR 237.1 billion at 31 December 2020.

Assets

- Deposits with the Central Bank increased from EUR 30 billion to EUR 40 billion. This increase reflected higher Customers and Bank Deposits and included the additional borrowing of Targeted Long-Term Refinancing Operation ('TLTRO') III funding.
- Loans and advances to customers were down to EUR 54.9 billion in June 2021 compared with EUR 56.2 billion in December 2020, mainly down in CMB and GBM.
- Derivatives decreased by EUR 14.7 billion mainly as a result of mark-to-market movements on interest rate swaps.

Liabilities

- Customer accounts rose from EUR 61.4 billion to EUR 65.3 billion during the first half of the year. The increase on CMB and GBM businesses reflected the significant inflows linked to the Covid-19 pandemic and the transfer of accounts held with HSS from HSBC Bank plc to HSBC Continental Europe.
- Derivatives decreased by EUR 15.5 billion, due to the evolution of interest rates.
- Trading liabilities increased by EUR 2.1 billion reaching EUR 19.9 billion.

Equity

Shareholders' equity stood at EUR 7.5 billion, up from EUR 7.4 billion in 2020.

The CET1 (Common Equity Tier 1) ratio was 11.9 per cent at 30 June 2021 and a total capital ratio was 16.4 per cent.

Liquidity and funding

At 30 June 2021, the short-term Liquidity coverage ratio ('LCR') was 144 per cent and the long-term Net stable funding ratio ('NSFR') computed in respect of CRR II guidelines was 137%. Additional disclosure on Treasury risk is available on page 38.

Average number of persons employed by HSBC Continental Europe

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
Wealth and Personal Banking	**4,076**	4,178	4,132
Commercial Banking	**1,577**	1,662	1,641
Global Banking and Markets	**1,025**	1,156	1,134
Corporate Centre	**2**	14	13
Support functions and others[1]	**2,465**	2,719	2,583
Total[2]	**9,145**	9,729	9,503

1 *Including pre-retirement ('CFCS') and expatriates.*
2 *Permanent contracts ('CDI') and fixed terms contracts ('CDD') within HSBC Continental Europe (including the European branches) and its subsidiaries.*

Credit ratings

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

	Standard & Poor's	Moody's	Fitch Ratings
Long Term – Senior preferred	A+	A1	AA -
Outlook	Stable	Stable	Negative
Short-term Rating	A-1+	P-1	F1+

On 9 June 2021, Moody's announced the downgrade of HSBC Continental Europe long term ratings by one notch to A1 from Aa3, with an outlook of stable. This followed the downgrade of HSBC Holdings' senior debt ratings to A3 from A2 on 8 June 2021.

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

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

Risks

Risk factors

We have identified a comprehensive list of risk factors that cover the broad range of risks our businesses are exposed to. A number of the risk factors have the potential to have a material adverse effect on our business, prospects, financial condition, capital position, reputation, results of operations and/or our customers.

They frame the ongoing assessment of our top and emerging risks that may result in our risk appetite being revised.

For the risks linked to Covid-19 see 'Areas of Special Interest' on page 28.

Category	Risks	Probability (Very Unlikely/ Unlikely/Likely/ Very Likely)	Impact (Low/ Medium/ High/ Very High)
Macroeconomic and geopolitical risk	Current economic and market conditions may adversely affect HSBC Continental Europe's results.	Likely	High
	Market fluctuations may reduce our income or the value of our portfolios.	Likely	Medium
	HSBC Continental Europe may lose access to its liquidity or funding sources, which are essential to its businesses	Unlikely	Medium
Macro-prudential, regulatory and legal risks	HSBC Continental Europe is exposed to the risks associated with the replacement of Ibor (interbank offered rates)	Likely	High
Risks related to our operations	HSBC Continental Europe remain susceptible to a wide range of cyber-risks that impact and/or are facilitated by technology.	Likely	High
	HSBC Continental Europe's operations are highly dependent on our information technology systems.	Unlikely	High
	HSBC Continental Europe could incur losses or be required to hold additional capital as a result of model limitations or weaknesses.	Unlikely	High
	HSBC Continental Europe's operations utilise third-party and intra group suppliers and service providers which may be exposed to risks that HSBC Continental Europe may not be aware of.	Likely	Medium
Risks related to our governance and internal control	The delivery of our strategic actions is subject to execution risk.	Likely	High
	We may not achieve any of the expected benefits of our strategic initiatives.	Unlikely	High
	HSBC Continental Europe's data management policies and processes may not be sufficiently robust.	Likely	Medium
	Third parties may use us as a conduit for illegal activities without our knowledge.	Unlikely	Medium
Risks related to our business	Risks concerning borrower credit quality are inherent in our businesses.	Likely	High
	HSBC Continental Europe is exposed to a risk of attrition along with a skills retention risk.	Likely	High
	HSBC Continental Europe has significant exposure to counterparty risk.	Likely	High
	HSBC Continental Europe's reputational risk is highly linked to its current organisational evolution.	Likely	Medium
	HSBC Continental Europe's operations are subject to the threat of fraudulent activity.	Likely	Medium
Risks related to financial statements	HSBC Continental Europe's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty.	Unlikely	Medium

Macroeconomic and geopolitical risks

Current economic and market conditions may adversely affect HSBC Continental Europe's results. Probability: Likely/ Impact: High.

The Covid-19 outbreak has had, and continues to have, a material impact on businesses and on the economic environment in which HSBC Continental Europe operates. It has caused disruption to HSBC Continental Europe's customers, suppliers and staff. In most countries in which HSBC Continental Europe operates, notably in France, schemes initiated in 2020 by national governments to provide financial and social support to the economic sectors most impacted by the Covid-19 outbreak have been maintained in the first half of 2021 or cautiously and only partially withdrawn.

The widely expected economic rebound may be hampered by the fourth wave of Covid-19 outbreak that started in June 2021 in the UK and is progressively gaining momentum in Continental Europe, especially where vaccination programmes have been slowing down, such as in France. Whilst the macroeconomic outlook is generally positive for this year, uncertainty remains which could adversely impact investment and demand for financing facilities. Although company defaults have been kept artificially low by government support schemes, they are likely to rise significantly, once liquidity provided to SMEs by the support measures has been exhausted. This could potentially trigger the need for additional credit risk provisions and reduce the profitability of HSBC Continental Europe. However, as the repayment holiday period under the French State-guaranteed loans granted in 2020 could be extended by one further year at the beneficiaries' option, some of these impacts may not be seen before 2022, and could be dampened by then in case of a strong recovery of the economy.

HSBC Continental Europe's priority in 2021 is to continue to manage the consequences of the Covid-19 health crisis while carrying on with the transformation and growth of its businesses. The HSBC Group launched in 2020 a restructuring of its businesses and central functions. The Group strategy presented in February 2020 aims to improve returns and efficiency in Continental Europe by 2022, and to reduce RWAs. Following these announcements, the global Wholesale business lines – which cover the whole spectrum of companies – as well as the central functions have launched the implementation of new business and operating models, most of which are expected to be in place by the end of 2021 in order to make the bank simpler and more agile across Europe.

Market fluctuations may reduce our income or the value of our portfolios. Probability: Likely/Impact: Medium.

Our businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices, and the risk that our customers act in a manner inconsistent with our business, pricing and hedging assumptions.

Market movements will continue to significantly affect us in a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. Changes in interest rate levels, interbank spreads over official rates, yield curves and spreads affect the interest rate spread realised between lending and borrowing costs. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict our ability to change interest rates applying to customers in response to changes in official and wholesale market rates. Our insurance businesses are also exposed to the risk that market fluctuations will cause mismatches to occur between product liabilities and the investment assets that back them. It is difficult to predict with any degree of accuracy changes in market conditions, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations.

See also section'Market risks in the first half of 2021' on page 62.

As at 30 June 2021, Market Risk RWAs were EUR 4.269 billion of which EUR 306 million were under standardised approach and EUR 3.963 billion under Internal Model Approach ('IMA'). The standardised RWAs include EUR 151 million of Interest rate risk, EUR 99 million of Foreign exchange risk and EUR 56 million of options. RWAs under IMA include EUR 608 million VaR RWAs, EUR 1.457 billion Stressed VaR RWAs, EUR 671 million of Incremental risk charge RWAs and EUR 1.227 billion re Others. See tables: Market risk under standardised approach and Market risk under IMA on page 62.

HSBC Continental Europe may lose access to its liquidity or funding sources, which are essential to its businesses. Probability: Unlikely/Impact: Medium.

Our ability to borrow on a secured or unsecured basis, and the cost of doing so, can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to the wider HSBC Group, HSBC Continental Europe specifically or the banking sector.

Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding, and we place considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in our capital strength and liquidity, and on comparable and transparent pricing. Although deposits have always been a stable source of funding historically, even in times of economic crisis, under an extreme scenario this may not continue.

We also access wholesale markets in order to provide funding to align asset and liability balances, maturities and currencies, and to contribute to the financing of our lending and market activities.

Non-favourable macroeconomic developments, market disruptions or regulatory developments may increase our funding costs or challenge the ability of HSBC Continental Europe to raise funds to support or expand its businesses.

If we were unable to raise funds through deposits and/or in the capital markets, our liquidity position could be adversely affected, and we could be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet our obligations under committed financing facilities and insurance contracts or to fund new loans, investments and businesses. We may need to liquidate unencumbered assets to meet our liabilities. In such an extreme scenario and in a time of reduced liquidity, we may be unable to sell some of our assets, or we may need to sell assets at reduced prices, which in either case could materially adversely affect our business, prospects, financial condition and results of operations. It is difficult to predict with any degree of accuracy changes in access to funds, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations. Nevertheless, a number of contingent actions and procedures – including business actions, and accessing the central bank refinancing operations which have materially enhanced over 2020 – are in place in HSBC Continental Europe's Contingency Funding Plan in order to tackle such a situation should it happen, which materially reduces the impact of this risk should it materialise.

HSBC Continental Europe undertakes liquidity stress testing to test that its risk appetite is adequate, to validate that it can continue to operate under various stress scenarios that involve an analysis on the relevant probable or severe area of risk to HSBC Continental Europe, and to confirm that the stress assumptions within the LCR scenario are appropriate and conservative enough for the group's business. Since 2020, HSBC Continental Europe has set at the forefront the Internal Liquidity Metric, a daily internal stress test metric, complementing the LCR, to rely on for the operational day-to-day management of the Bank's liquidity position. Moreover, several other different stress tests are run on varying durations and nature whose assumptions and results are reviewed in the Asset, Liability, and Capital Management Committees ('ALCO') and presented through the Internal Liquidity Adequacy Assessment Process ('ILAAP') to the Board.

Macro-prudential, regulatory and legal risks to the business model of HSBC Continental Europe

HSBC Continental Europe is exposed to the risks associated with the replacement of Ibor. Probability: Likely/ Impact: High.

The planned replacement of key Ibor rates (Libor/Eonia) with alternative benchmark rates introduces a number of risks for HSBC Continental Europe, its clients, and the financial services industry more widely. This includes, but is not limited to:

- Execution/operational risks, due to the requirement to adapt IT systems, infrastructure and operational processes, notably for the legacy book transition;

- Conduct risks, relating to potential negative outcomes for the clients resulting from the sales of new product, the continued sales of Ibor products and the transition of the legacy book;
- Legal risks, as changes required to documentation for new and existing transactions may be required;
- Financial risks, arising from any changes in the valuation of financial instruments linked to benchmark rates;
- Pricing risks, such as changes to benchmark indexes could impact pricing mechanisms on some instruments.

See also section 'Ibor transition' in the Areas of Special Interest on pages 28–31.

Risks related to our operations

HSBC Continental Europe remains susceptible to a wide range of cyber-risks that impact and/or are facilitated by technology. Probability: Likely/Impact: High.

The threat from cyber-attacks remains a concern for our organisation, and failure to protect our operations from internet crime or cyber-attacks may result in financial loss, business disruption and/or loss of customer services and data or other sensitive information that could undermine our reputation and our ability to attract and keep customers. Ransomware and Distributed Denial of Service ('DDOS') attacks are an increasingly dominant threat across the industry. Since January 2021, the bank has not been subject to DDOS attacks on our external facing websites which could have generated business impact. However, whilst the bank was not subject to ransomware attacks, such attacks impacted Third Parties and Customers. Although cyberattacks had a negligible effect on our customers or services due to the increasing sophistication of cyber-attacks potential future attacks could have a material adverse effect on our business, prospects, our capital, reputation and our profit.

HSBC Continental Europe did not report any operational losses related to Cyber risks in either 2018, 2019, 2020 or in the first half of 2021. Operational losses for combined Information, technology and cyber security risks were EUR 0.0 million in the first half of 2021.

HSBC Continental Europe's operations are highly dependent on our information technology systems. Probability: Unlikely/Impact: High.

The reliability and security of our information and technology infrastructure, and our customer databases are crucial to maintaining the service availability of banking applications and processes and to protecting the HSBC brand. The proper functioning of our payment systems, financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between our branches and main data processing centres, are critical to our operations. Critical system failure, any prolonged loss of service or data availability or any material breach of data integrity, could cause serious damage to our ability to service our clients, could breach regulations under which we operate and cause long-term damage to our business and brand that could have a material adverse effect on our business, prospects, financial condition and results of operations. No noticeable incidents or disruptions were reported for HSBC Continental Europe in 2019, 2020 and in the first half of 2021. In addition HSBC Continental Europe management considered the financial control environment and reviewed action taken to enhance controls over IT access management.

Operational losses for Information, technology and cyber security risk in the first half of 2021 were EUR 0.0 million. See table on page 146 of the HSBC Continental Europe *Universal Registration Document 2020* concerning Operational risk losses: quantitative data starting from 2012 for full details.

HSBC Continental Europe could incur losses or be required to hold additional capital as a result of model limitations or weaknesses. Probability: Unlikely/Impact: High.

HSBC Continental Europe uses models for a range of purposes in managing its business, including calculation of RWAs, loan impairment charges, fair valuation of some financial instruments, financial crime and fraud risk management, stress testing, and credit approvals.

HSBC Continental Europe could in some cases face adverse consequences as a result of decisions by management based on the use of models. This can happen when models have been inadequately designed or implemented, when their outcome is misunderstood or used beyond the model's intended use case, or as a result of random events whose probability was neglected in the model design. Such events are made more probable by the uncertain and unprecedented environment created by the Covid-19 crisis. Risks arising from the use of models could have a material adverse effect on our business, prospects, financial condition, results of operations, minimum capital requirements and reputation. Regulatory scrutiny and supervisory concerns over banks' use of models is considerable, particularly the internal models and assumptions used by banks in the calculation of RWAs. In case of significant model deficiencies, regulators may require model re-developments or impose capital add-ons.

For details concerning RWAs as at 30 June 2021 – see table: Overview of risk weighted exposure amounts on page 47.

Likewise, models are used to infer the fair value of some financial instruments, such as over-the-counter derivatives, whose price cannot be directly observed on trading platforms: models then compute a fair value by leveraging the prices of similar observable financial instruments. They may be based on observable inputs only ('Level 2' fair value accounting) or, in some cases, on some unobservable inputs that have to be prudently estimated ('Level 3' fair value accounting).

For details concerning Fair values of financial instruments carried at fair value as at 30 June 2021 – see Note 5 on page 73.

HSBC Continental Europe's operations utilise third-party and intra Group suppliers and service providers which may be exposed to risks that HSBC Continental Europe may not be aware of. Probability: Likely/Impact: Medium.

HSBC relies on external and intra-group third parties to supply goods and services. Regulators have increased their scrutiny regarding the use of third-party providers by financial institutions, including the ones related to how outsourcing decisions are managed. Risks arising from the use of third parties may be more challenging to manage.

The inadequate management of third-party risk could impact our ability to meet strategic, regulatory and client expectations. This may lead to consequences, including regulatory or civil penalties or damage both to shareholder value and to our reputation, which could have a negative impact on our business, clients, capital and profit.

To answer regulatory evolutions related to the implementation of new European Banking Authority ('EBA') guidelines on outsourcing, HSBC Continental Europe has continued to enhance in 2021 its third party risk management framework in order to deal with those risks in a consistent and efficient way within its perimeter. This dedicated framework, applicable within the whole perimeter of HSBC Continental Europe, still needs support from the businesses. Furthermore, remediation works related to pre-existing third-parties are under way. Any outsourcing of a material service needs to be formally approved by the Bank's Risk Management Meeting.

No material incidents linked to Third parties occurred in the first half of 2021.

Risks related to our governance and internal control

The delivery of our strategic actions is subject to execution risk. Probability: Likely/Impact: High.

Robust management of critical time-sensitive and resource intensive projects is required to effectively deliver HSBC Continental Europe's strategic priorities. HSBC Continental Europe continues to implement a number of programmes in support of the development of the Group's Continental European hub based in Paris. We are repositioning underperforming businesses, and have completed the strategic review of our French retail banking activities. We continue to adapt our operating model, and support regulatory programme.

The magnitude and complexity of the transformation underway does present heightened execution risk. The cumulative impact of the collective change initiatives within HSBC Continental Europe is significant and has direct implications on HSBC Continental Europe's resourcing and people. In addition, these strategic actions are being undertaken in an uncertain economic, market and regulatory context, which may result in volatility in financial results and necessary adaptation of strategy execution to take new environment into account.

The failure to successfully deliver key strategic actions or other regulatory programmes could have a significant impact on HSBC Continental Europe's financial condition, profitability and prospects, as well as wider reputational and regulatory implications. Execution Risk linked to the ongoing number of projects is being managed and mitigated through a Project Oversight Committee.

We may not achieve any of the expected benefits of our strategic initiatives. Probability: Unlikely/Impact: High.

With regards to the current operating environment in Europe, HSBC Group has reviewed its strategy and operations in order to implement a sustainable and profitable operating model that would be able to best serve its clients in the future. Within this framework, our strategy in Europe is to become the leading international wholesale bank, complemented by a targeted wealth management business. The HSBC Group's international network and expertise along with HSBC Continental Europe's coverage and capabilities provide us with a strategic advantage to help clients achieve their goals, whether it is growing their businesses in the single market or breaking into international markets. The development and implementation of HSBC Continental Europe's strategy requires difficult, subjective and complex judgements, including forecasts of economic conditions in Continental Europe but also in other parts of the world. HSBC Continental Europe may fail to correctly identify the trends it seeks to exploit and the relevant factors in making decisions as to capital deployment and cost reduction. Key to achieving HSBC Continental Europe's strategy is to increase the cross-business and cross-border synergies between HSBC Group's different entities across the globe, while ensuring an efficient operating model across our Continental European operations.

The Group strategy aims to improve returns and efficiency in Continental Europe, and to reduce RWAs. Given these guidelines, Global Businesses have reviewed their operating models, to build more streamlined and effective operations across Europe. Please refer to the section 'Presentation of activities and strategy' in page 4 for further details on our strategy. The Group's strategy to focus on our strengths, digitise at scale, energise for growth and transition to net zero is reflected in HSBC Continental Europe.

HSBC Continental Europe's data management policies and processes may not be sufficiently robust. Probability: Likely/ Impact: Medium.

Prioritised business processes rely on large volumes of data from a number of different systems and sources. If data governance including retention and deletion, data quality and data architecture policies and procedures are not sufficiently robust, manual interventions, adjustments and reconciliations may be required to reduce the risk of error in reporting to senior management or to Regulators. Inadequate policies and processes may also affect our ability to use data within HSBC Continental Europe to service customers more effectively and/or improve our product offering. This could have a material adverse effect on our business, prospects, financial results and firm reputation.

Moreover, financial institutions that fail to comply with the principles for effective risk data aggregation and risk reporting as set out by the Basel Committee by the required deadline may face supervisory measures.

In addition, failure to comply with the EU General Data Protection Regulation ('GDPR') and Data Privacy requirements may result in regulatory sanctions and fines. We observed over the last years that the Regulators expect HSBC to do more by increasing their capabilities and scope for compliance on Data Management, Data Architecture and Data Privacy requirements.

Third parties may use us as a conduit for illegal activities without our knowledge. Probability: Unlikely/Impact: Medium.

We are required to comply with applicable Anti Money Laundering ('AML') laws, Sanctions, Anti Bribery & Corruption ('AB&C'), Fraud Prevention and Tax Transparency regulations, and have adopted HSBC Group policies and procedures, as well as additional local legislative regulatory requirements, and regulators and Financial Investigation Unit's expectations and recommendations including Customer Due Diligence procedures and internal control framework and governance, aimed at preventing use of HSBC products and services for the purpose of committing or concealing financial crime and at mitigating HSBC exposition to Financial Crime risks. A major focus of US and UK government policy relating to financial institutions in recent years has been preventing, detecting and deterring money laundering and enforcing compliance with US and EU economic sanctions at Group level. This focus is reflected in part by our agreements with US and UK authorities relating to various investigations regarding past inadequate compliance with AML, and sanctions. These consent orders do not preclude additional enforcement actions by bank regulatory, governmental or law enforcement agencies or private litigation. Our local French regulators remain strongly focused on AML-CTF and, more recently, AB&C and Tax Fraud/Tax Evasion matters within the French Banking industry. Furthermore, French anticorruption requirements have been issued pursuant to the loi n°2016-1691 du 9 décembre 2016 said 'Sapin II'. In addition to this, the Agence Française Anticorruption ('AFA') have been established to supervise French companies.

A number of the remedial actions have been taken as a result of the matters to which the US Deferred Prosecution Agreement ('DPA') related, which are intended to ensure that the Group's businesses are better protected in respect of these risks. As HSBC have met their obligations under the DPA, the agreement has expired at the end of 2017. The Monitor is overseeing HSBC progress under the UK Financial Conduct Authority's instructions and will continue its monitoring. In recent years, we have experienced a substantial rise in the volume of new regulations impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into the bank's activities. It is important to note that France on-site visit and plenary discussions for a mutual evaluation is scheduled by FATF in 2021. In line with the Group's heightened standards and organisation, HSBC Continental Europe has continued to improve the Financial Crime Compliance and Regulatory Compliance framework. However, there can be no assurance that these will be completely effective.

Moreover, in relevant situations, and where permitted by regulation, we may rely upon certain third parties to carry out certain Identification & Verification and KYC activities in accordance with our AML, Sanctions, AB&C, Fraud Prevention and Tax Transparency procedures. While permitted by regulation, such reliance may not be effective in preventing third parties from using us (and our relevant counterparties) as a conduit for money laundering, including illegal cash operations, without our knowledge (and that of our relevant counterparties) or for financing terrorism, sanctions violation, corruption, fraud or tax fraud and tax evasion. Becoming a party to money laundering, association with, or even accusations of being associated with, money laundering, sanctions violation, corruption fraud or tax fraud/evasion will damage our reputation and could make us subject to fines, sanctions and/or legal enforcement. Any one of these outcomes could have a material adverse effect on our business, prospects, financial condition and results of operations.

Within HSBC Continental Europe, every month, all transactions – more than 30 million across 1.7 million accounts – are analysed to detect signs of money laundering, terrorism financing tax avoidance, bribery and corruption, fraud and failure to comply with sanctions. In addition, 1.7 million names are screened on an ongoing basis using various surveillance lists. In order to ensure the effectiveness of our policies, an annual training course has been taken by 96 per cent of HSBC Continental Europe employees.

Risks related to our business

Risks concerning borrower credit quality are inherent in our businesses. Probability: Likely/Impact: High.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties in derivative transactions are inherent in the businesses of HSBC Continental Europe. Adverse changes in the credit quality of our borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems could reduce the recoverability and value of our assets, and require an increase in our loan impairment charges. The risk is that our assessment of the impact of the factors that we have identified may be inaccurate, or that we fail to identify relevant factors. HSBC Continental Europe's assessment of the creditworthiness of its counterparties may be inaccurate or incorrect. Any failure by HSBC Continental Europe to accurately estimate the ability of its counterparties to meet their obligations may have a material adverse effect on HSBC Continental Europe its prospects, financial condition and results of operations. The level of any material adverse effect will depend of the number of borrowers involved, the size of the exposures and the level of any inaccuracy of our estimations.

The review of counterparties under potential stress has been reinforced since the beginning of the Covid-19 crisis, with a focus on the early identification of cases that showed signs of credit worthiness deterioration.

In the first half of 2021, HSBC Continental Europe has continued to build on the measures introduced in 2020 to safeguard its position, and its customers, in the face of economic uncertainty from the pandemic. One of the key activities for WPB has been the management of those customers that were previously granted repayment deferrals and assessing their current financial position with a view to supporting them in returning to an amortising payment schedule or restructuring the debt if deemed the right solution. This oversight has also been required for professional customers who participated in the treasury loan scheme (secured by the French state), as the early recipients started to finish their 12-month payment deferral period during the course of the first half of 2021, which required getting prepared for the next phase (further deferral, amortisation or repayment). Whilst the demand is low, these treasury loans are still provided as this government scheme has been extended into 2021.

Whilst Credit Risk RWAs increased in 2020 as a result of the deferral of repayments, approval of waiver requests, additional financing requests, precautionary drawdown by companies of their revolving credit facilities and the downgrading of clients' risk rating, the situation has largely stabilised in the first half of 2021. For details concerning RWAs as at 30 June 2021 – see table: Overview of risk weighted exposure amounts on page 47. In the first half of 2021, RWAs in respect of WPB registered an increase as a result of model changes and regulatory add-ons following a Targeted Review of Internal Models ('TRIM'). The geographic breakdown of exposures as at 31 December 2020 of HSBC Continental Europe and the credit risk exposures by industry sectors can be found in tables 15 and 16 on pages 20 and 21 respectively in the *2020 HSBC Continental Europe Pillar 3* document.

Unlike in 2020, Expected Credit Losses have not increased significantly over the period reflecting the stabilising credit worthiness of the portfolio. Whilst Stage 3 impairments materially increased in 2020 as some companies entered into default either through bankruptcy or as they engaged into financial restructuring, the level of net additional Stage 3 impairments has dramatically receded in the first half of 2021. Reported change in expected credit losses and other credit impairment charges was a release of EUR 1 million, compared with a charge of EUR 229 million in the first half of 2020.

HSBC Continental Europe is exposed to a risk of attrition along with a skills retention risk. Probability: Likely/Impact: High.

The demands being placed on the human resources of the bank remain at a very high level. The workload arising from evolving regulatory reform programmes places increasingly complex and sometime conflicting demands on the workforce. At the same time, the human resources operate in an employment market where expertise in key markets is often in short supply and mobile. The continued success of HSBC Continental Europe depends in part on the retention of key members of its management team and wider employee base. The ability to continue to attract, train, motivate and retain highly qualified professionals and talented people who embrace HSBC core values is a key element of our strategy, which is to be a leading international wholesale bank in Europe, involves the execution of restructuring projects that depend on our capacity. If businesses or functions fail to staff their operations appropriately, to attract international profiles, or lose one or more of their key senior executives/talent and fail to successfully replace them in a satisfactory and timely manner, or fail to implement successfully the organisational changes required to support the strategy, or do not succeed to develop shared core values, the sustainable improvement of the results of our activities and more globally of our financial results, alongside with control and operational risks, could be materially adversely affected.

Nevertheless, the current pandemic has had an impact on headcounts with a reduction in the trend of resignations and hence a reduction in our external recruitment requirements. On the contrary, people risks linked to higher uncertainty, anxiety and stress, has undoubtedly increased during this prolonged period of 'working from home'.

HSBC Continental Europe has significant exposure to counterparty risk. Probability: Likely/Impact: High.

HSBC Continental Europe is exposed to counterparties that are involved in virtually all major industries, and we routinely execute transactions with counterparties in financial services, including central clearing counterparties, commercial banks, investment banks, mutual funds, and other institutional clients. Many of these transactions expose HSBC Continental Europe to credit risk in the event of default by our counterparty or client. Our ability to engage in routine transactions to fund our operations and manage our risks could be materially adversely affected by the actions and commercial soundness of other financial services institutions. Financial institutions are necessarily interdependent because of trading, clearing, counterparty or other relationships. As a consequence, a default by, or decline in market confidence in, individual institutions, or anxiety about the financial services industry generally, can lead to further individual and/or system difficulties, defaults and losses. Mandatory central clearing of OTC derivatives, including under the EU's European Market Infrastructure Regulation, poses risks to HSBC. As a clearing member, we will be required to underwrite losses incurred at a Central Counterparty ('CCP') by the default of other clearing members and their clients. Hence, increased moves towards central clearing brings with it a further element of interconnectedness between clearing members and clients that we believe may increase rather than reduce our exposure to systemic risk. At the same time, our ability to manage such risk ourselves will be reduced because control has been largely outsourced to CCPs.

Where bilateral counterparty risk has been mitigated by taking collateral, credit risk for HSBC Continental Europe may remain high if the collateral we hold cannot be realised or has to be liquidated at prices that are insufficient to recover the full amount of our loan or derivative exposure. There is a risk that collateral cannot be realised, including situations where this arises by change of law that may influence our ability to foreclose on collateral or otherwise enforce contractual rights. Any such adjustments or fair value changes may have a material adverse effect on our financial condition and results of operations.

As at 30 June 2021, Counterparty Risk RWAs were EUR 4.1 billion compared to EUR 3.7 billion as at 31 December 2020. See also RWAs as at 30 June 2021 – table: Overview of risk weighted exposure amounts on page 47 and table: Analysis of CCR exposure by approach on page 58.

HSBC Continental Europe's reputational risk is highly linked to its current organisational evolution. Probability: Likely/Impact: Medium.

Reputational risk has significantly increased in the context of HSBC Continental Europe business model reshaping: The path of transformation and the intense activity linked to an important number of strategic projects managed concurrently have attracted media pick up, most notably the Group's strategic review of retail operations in France, the ongoing reorganisation in Markets and Securities Services and Global Banking, followed by the reorganisation of its commercial banking business and its functions. These reorganisation programmes could affect directly HSBC Continental Europe, financially or otherwise along with partners and clients' trust. Simultaneously the level of uncertainty has increased for both customers and employees and our ability to hire or retain them may be impacted by a long lasting period of lack of visibility on our future businesses and operations. Negative public opinion may adversely affect our ability to retain and attract customers, in particular, corporate and retail depositors, and retain and motivate staff, and could have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

HSBC Continental Europe's operations are subject to the threat of fraudulent activity. Probability: Likely/Impact: Medium.

The risk of fraud has increased and been made more complex by the digital transformations operated within HSBC, fraudsters may target any of our products, services and delivery channels (especially the online on-boarding), including lending, internet banking, payments, bank accounts and cards, and cyber-attacks against the bank's infrastructure are increasing in frequency and force. This may result in financial loss to HSBC Continental Europe, an adverse customer experience, reputational damage and potential regulatory action depending on the circumstances of the event, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations. There is consumer association pressure to make banks liable for substantially more of consumer fraud losses in absence of comprehensive fraud prevention solutions and controls. In addition, fraud related litigation against the bank is increasing, be it where HSBC is banking the client or the fraudster.

As at 30 June 2021, the Operational Risk losses totalled EUR 2.35 million of which EUR 1 million are for external fraud compared to EUR 61.1 million in total as at 30th June 2020 of which EUR 1.2 million for external fraud. Internal fraud was negligible in the first half of 2020 and zero in the first half of 2021.

The risk of external fraud remains high as the Covid-19 pandemic continues to disrupt the lives of individuals and organisations. Despite the roll out of vaccinations and easing of some lockdown measures, individuals and organisations are still having to adapt to the 'new normal'. Fraudsters continue to exploit the current state of uncertainty through the use of scams designed to steal money by deception (3rd party fraud), organisations are having to continually adapt their business models to survive and manage the impact from the ending of government backed support schemes.

There is increased risk of 1st party lending fraud through the misrepresentation of financial statements to secure additional lines of credit although to date this has not been evidenced in Continental Europe. Continued adoption of home working arrangements results in reduced management supervision and visibility of staff activity which heightens the risk of internal fraud. However, no significant incident specifically linked to the pandemic has been reported

Risks related to financial statements

HSBC Continental Europe's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty. Probability: Unlikely/Impact: Medium.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements, assumptions and models are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to our results and financial position, based upon materiality and significant judgements and estimates, include impairment of loans and advances, goodwill, intangible and tangible asset impairment, valuation of financial instruments, deferred tax assets, provisions and interests in associates. The valuation of financial instruments measured at fair value can be subjective, in particular where models are used that include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments, future outcomes may differ materially from those assumed using information available at the reporting date. The effect of these differences on the future results of operations and the future financial position of HSBC Continental Europe may be material. If the judgement, estimates and assumptions HSBC Continental Europe use in preparing its consolidated financial statements are subsequently found to be materially different from those assumed using information available at the reporting date, this could affect our business, prospects, financial condition and results of operations.

Top and emerging risks

Top and emerging risks are those that may impact on the financial results, reputation or business model of the bank. If these risks were to occur, they could have a material effect on the Group.

HSBC Continental Europe continuously monitors and identifies risks. This process, which is informed by an assessment of its risk factors and the results of stress testing, gives rise to the classification of certain principal risks. Changes in the assessment of principal risks may result in adjustments to the bank's business strategy and, potentially, its risk appetite.

In addition, on a forward-looking basis, HSBC Continental Europe aims to identify, monitor and, where possible, measure and mitigate large scale events or sets of circumstances that may have the potential to have a material impact on its financial results or reputation and the sustainability of its long-term business model. These events, giving rise to additional principal banking risks noted above, are captured together as the top and emerging risks.

All the HSBC Continental Europe Top and Emerging Risks were reviewed to include the Covid-19 risks and mitigations.

Further details are set out in the risk overview table below:

Risk		Mitigants
Externally driven		
Macro economic and geopolitical risks	▶	We monitor developments in geopolitical risk and assess what impacts this may have on our portfolios. Covid-19 has resulted in an unprecedented global economic slowdown with a significant increase in credit stress across our portfolios. We have increased the frequency and depth of our monitoring activities with Covid-19 vulnerability assessments performed as part of the customer reviews. Stress tests and other sectorial reviews continue to be performed in to identify portfolios or customers who were experiencing or were likely to experience financial difficulty as a result of Covid-19. We have also increased resources to help address the increased level of credit defaults in the current environment.
Competition risk	▶	HSBC Continental Europe operates in a highly competitive industry that continues to undergo significant change as a result of financial regulatory reforms as well as increased public scrutiny stemming from the financial crisis and continued challenging economic conditions, further enhanced by the Covid-19 crisis. The European banking sector is under strain, pressured by higher credit losses in both corporate and retail portfolios in addition to a slowing of new business and compressed margins. The combination of credit losses and weaker revenues will impact earnings and balance sheets, which, combined, with risk-weighted asset inflation, will drive capital ratios and average returns on equity down. Given that industry growth is expected to be low, improved returns will need to come from reducing cost or capital intensity, while meeting regulatory and market requirements in the payment (European Payment Services Directive 'PSD2', Instant Payment, Near Field Communication payment, blockchain) and data management landscape (General Data Protection Regulation 'GDPR', Open Banking, Artificial Intelligence). The banking industry is also facing heightened competition on its traditional banking products and services following the arrival of new entrants such as mobile banks, tech companies and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists', etc.), driven by the implementation of these new regulations. These potential competitors are capable of capturing part of the banking sector's value chain' by offering to their customers relatively more flexible and reactive services, leveraging new technologies, attractive pricing, or more responsive online banking services via smartphones or tablets. The Covid-19 lockdowns have further triggered the shift to digital and mobile banking in all European countries. It is to be noted that smaller players such as neobanks or new non-banking entrants could be further weakened as they have not weathered economic distress or been subject to the same level of regulatory oversight and preparedness measures. The Group strategy – discussed in the 'Presentation of activities and strategy' section in page 4 – aims to improve returns in Continental Europe by 2022. HSBC Group is fully aware of the technology innovations mentioned above and maintains high level contacts with the 'Fintech ecosystem'. The PSD2 project is well structured in France and Europe to ensure that the bank complies with its obligations and is also looking at key business opportunities. GDPR is now applied in a structured manner within HSBC Continental Europe. HSBC Continental Europe has implemented Instant Payment and enhanced multichannel and digital features for its retail customers.
Ibor Transition Risk	▶	During the first half of 2021, our interbank offered rate ('Ibor') transition programme, which is tasked with the development of new replacement near risk-free rate ('RFR') products and the transition from legacy Ibor products, has continued to implement the required IT and operational changes that are necessary to facilitate an orderly transition from Ibor to RFR, or alternative benchmarks, such as central bank rates. Following the confirmation from the interest rate benchmark administrator, the ICE Benchmark Administration ('IBA'), that US dollar Libor will continue to be published for most settings until 30 June 2023, the programme has focused on client engagement for Ibor demising in 2021, including the Eonia, and has actively met industry guidelines on cessation of new Ibor contract issuance in demising Ibor. HSBC has planned to materially transition by the end of the third quarter of 2021 the Ibor contracts that will be demised in 2021, however as a result of client and market readiness, there is a risk that decisions to transition and resultant operational activities are concentrated late in the second half of 2021. HSBC has prepared for these events although some legislative solutions may still be required to enable a smooth transition. For further details on our approach to Ibor transition, see 'Areas of special interest' on page 28.
Cyber threats and unauthorised access to systems	▲	We endeavour to protect HSBC and our customers by strengthening our cyber defences, helping us to execute our business priorities safely and keep our customers' information secure. We continue to strengthen controls to prevent, detect and mitigate the impacts of persistent and increasingly advanced cyber threats with specific focus on vulnerability management, malware defences, protections against unauthorised access and third-party risk. The global risk levels have increased compared to 2020 and we have improved our cyber defence capabilities. We are closely monitoring the continued dependency on wide spread remote working and online facilities which have increased the materiality cyber resiliency which HSBC Continental Europe is confronted with.
Tax risk	▶	The bank has implemented Common Reporting Standard ('CRS') to exchange information with other adopting countries as well as DAC 6 (Directive on Administrative Cooperation to fight cross border aggressive operations). The transfer Pricing policy is documented and has also being reviewed to include the branches and is a focus of interest for the tax administrations.

Risk		Mitigants
Externally driven		
Regulatory Compliance including conduct	▶	We monitor closely for regulatory developments and engage with regulators, policy makers and standard setters as appropriate, to help ensure that new regulatory requirements are implemented effectively and in a timely way. Key themes currently driving the regulatory compliance agenda include: environmental, social and governance matters, with a particular focus on climate risk; the impact of increasingly digital services and innovation more generally; and consumer protection and customer vulnerability, especially as a result of the Covid-19 outbreak. Regulatory environment continues to become more complex as more requests are being received from the various regulators which HSBC Continental Europe has to timely respond to.
Financial Crime Compliance	▶	During the first half of 2021, we continued to support the business and our customers throughout the Covid-19 pandemic, while continuing to make ongoing improvements to our financial crime controls; we updated and refreshed our fraud controls and are progressing plans to improve and refresh our wider financial crime controls. We continued with our investment in the application of both advanced analytics and artificial intelligence as key elements of our next generation of tools to fight financial crime. An annual refresh of our policies was also completed, ensuring our policies remain up-to-date and address changing and emerging risks, as well as meeting our regulatory obligations.
Environmental risks	▲	We have established a climate risk programme to support our climate change strategy and to monitor and respond appropriately to regulatory developments and stakeholders expectations on climate risk management. We have integrated climate risk into the overall risk management framework. We continue to use our corporate customer transition risk questionnaire to help inform our risk management. We are also preparing for the climate stress tests that the ECB will conduct in 2022. We have integrated biodiversity loss in our top and emerging risks and working to meet the regulatory disclosure on biodiversity required by French law for investments solutions providers.
Business Model Risk	▶	The banking industry in Europe is still impacted by low profitability, with some banks generating a Return on Equity ('RoE') which is below their estimated cost of equity. HSBC Continental Europe has been impacted by the prolonged period of low interest rates and intense competition impacting the ability to generate income. Furthermore, investments in IT and to support the fight against Financial Crime have weighed on our cost base. The current uncertain macroeconomic outlook adds pressure on revenues, loan impairment charges, and impacts credit, capital, liquidity and people risks. The Group strategy aims to improve returns and efficiency in Continental Europe by 2022, and to reduce RWAs. Given these guidelines, Global Businesses have reviewed their operating models, to build more streamlined and effective operations across Europe. HSBC Continental Europe's focus in 2021 is to continue to manage Covid-19 impacts whilst moving forward with the transformation of our activities. Please refer to the section 'Presentation of activities and strategy' in page 4 for further details on our strategy. We are aiming at building a strong and successful European business, focused on international wholesale banking clients linked to our global network complemented by a targeted wealth offering. The Group's strategy to focus on our strengths, digitise at scale, energise for growth and transition to net zero is reflected in HSBC Continental Europe. The adaptation of our operational model will enable a significant reduction of our cost base across Continental Europe. These initiatives are being tracked both at the country, European and Group level. The programme related to the preparation of the United Kingdom's departure from the EU has been implemented and closed.
Internally driven		
IT & Operational Risk Resilience risk	▶	We actively monitor and continue to improve IT systems and network resilience to minimise service disruption and enhance HSBC and customer experience. We continue to strengthen controls around incident and service management inventory and system monitoring. HSBC Continental Europe is implementing a regular data and software migration programme onto new servers. In some instances, the Bank decided to outsource some IT services to third party companies whenever it is safer and more efficient. The use of Cloud services allows us to increase our resilience while maintaining control over our data, applications and architecture. An evergreening plan is in place to update the software being used with the recent versions to ensure that vendor support will be obtained if an incident occurs. There is also further regional focus on service resilience.
Third Party Risk	▶	We continue to strengthen essential governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of third parties with which we do business. This includes control monitoring and assurance throughout the third-party life cycle. We have worked closely with our internal and external third-party providers, which have faced constraints and enhanced oversight on their operations during the Covid-19 outbreak. There has been no major impact to our services during the period.
Execution risks	▲	HSBC Continental Europe provides the necessary means to manage its various projects be they technical, financial or human. These are subject to regular monitoring as part of the governance framework adapted to the nature and complexity of the projects. The most important projects are followed at the highest possible governance forums. The impact of Covid-19 on the bank's major change programmes is being closely monitored.

Risk		Mitigants
Internally driven		
Model risk	▶	We continue to strengthen our oversight of models and the second line of defence Model Risk Management function. We are embedding a new model risk policy, which includes updated controls around the monitoring and use of models. We have launched new model risk measures for risk appetite, which focus on the risks inherent in the use of models. A large-scale redevelopment of our risk weighted asset models is underway in order to achieve full compliance with new regulation.
Data Management	▶	We continue to remediate the control environment for data-related risks with focused investments in data governance, data usage, data integrity, data privacy and information lifecycle management. In the first quarter of 2021, our data strategy was refreshed to align to three pillars: protect, connect and unlock.
People Risk	▲	A challenging external environment, alongside the business transformation and which could create an environment that certain staff may feel as complex and more uncertain. This situation could potentially lead to a decrease in staff engagement, increased sick leave and unwanted staff turnover. In addition the current transformation and increasing complexity in the banking industry modify the skills and expertise required in all Businesses and Functions. Staff have to adapt themselves and develop new competencies in a context of increased workload, which could create a feeling of unsuitability for some. In order to mitigate the above risks, HSBC Continental Europe France is making regular and clear communications to all staff concerning reorganisations and projects in progress. The bank also monitors with attention the workload and stress levels of its employees via bi-annual surveys. Line managers are equally made aware of this risk regularly and are encouraged to take appropriate action when necessary. HSBC Continental Europe in France has developed a series of collaborative workshops to collect feedback and concrete action plans with a programme called #Resilience to help managers and employees to cope with the current context of high uncertainty. In addition, HSBC continental Europe in France has deployed specific learning classes (technical, management, soft skills) for staff to develop new competencies and adapt themselves. A flexiwork agreement was signed in April 2021, to ease worklife balance and answer French employees' expectations.

▲ Risk has heightened during first half of 2021

▶ Risk remains at the same level during the first half of 2021

▼ Risk has decreased during first half of 2021

Managing risks

We use a comprehensive risk management framework across the organisation and across all risk types, underpinned by our culture and values. This outlines the key principles, policies and practices that we employ in managing material risks, both financial and nonfinancial.

Unprecedented global economic events meant banks continued to play an expanded role in supporting society and customers during the first half of 2021. Many of our customers' business models and income were impacted by the global economic downturn caused by the Covid-19 outbreak, requiring them to take significant levels of support from both governments and banks. Throughout the pandemic, we have continued to support our customers and adapted our operational processes. We have maintained high levels of service as our people, processes and systems responded to the required changes.

Geopolitical tensions and macroeconomic risks will continue to impact business sentiment and some issues have the potential to adversely impact bilateral commercial arrangements. To meet the additional challenges, we have supplemented our existing approach to risk management with additional tools and practices to mitigate and manage risks. We have also continued to increase our focus on the quality and timeliness of our management of information, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders.

Our Risk Appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

Our risk appetite also provides an anchor between our businesses and the Risk and finance functions, helping to enable our senior management to allocate capital, funding and liquidity optimally to finance growth, while monitoring exposure and the cost impacts of managing non-financial risks.

In the first half of 2021, we continued to build on the enhancements made in 2020 to ensure we remain able to support our customers and strategic goals against the backdrop of the Covid-19 outbreak. Capital and liquidity remain at the core of our risk appetite framework, with forward-looking statements informed by stress testing. We also continue to develop our climate risk appetite as we seek to engage with businesses, encourage conversations around climate risk and start to embed climate risk appetite into business planning.

Key Developments in the first half of 2021

We have been actively managing the ongoing risks resulting from Covid-19 and its impact on our customers and operations during the first half of 2021, as well as other key risks described in this Risk section, including execution risks linked to multiple projects which HSBC Continental Europe runs in 2021.

In the first half of 2021, we additionally continued to enhance our risk management in the following areas:

- We continued to focus on simplifying our approach to non-financial risk management, with the implementation of more effective oversight and better end-to-end identification and management of non-financial risks.
- We have introduced enhanced governance and oversight around model adjustments and related processes for IFRS 9 and SOX models.
- We continued to improve the effectiveness of our financial crime controls with a specific targeted update of our fraud controls. We completed a refresh of our financial crime policies, ensuring they remain up-to-date and address changing and emerging risks, as well as meeting our regulatory obligations.

- We continued to promote and encourage good conduct through our people's behaviour and decision making to deliver fair outcomes for customers and preserve market integrity.
- We continued to enhance our Third party risk framework, mainly related to Outsourcing to comply with the European regulations.

Areas of special interest

Ibor transition

The UK's Financial Conduct Authority ('FCA') announced in July 2017 that it would no longer continue to persuade or require panel banks to submit rates for the London interbank offered rate ('Libor') after 2021. In addition, the 2016 EU Benchmark Regulation, which aims to ensure the accuracy, robustness and integrity of interest rate benchmarks, has resulted in other regulatory bodies reassessing their national benchmarks. As a result, HSBC is actively participating in industry-led national working groups, which are discussing the mechanisms for an orderly transition of five Libor currencies, four Asia-Pacific benchmarks that reference US dollar Libor, the Euro Overnight Index Average ('Eonia'), the Singapore interbank offered rate ('Sibor'), and the Turkish Lira interbank offered rate ('TRLibor'), to their chosen replacement rates. As the administrator of Libor, ICE IBA, has confirmed the extension of the publication date of most US dollar Libor tenors until 30 June 2023, HSBC is focused on active transition of those demising by 1 January 2022.

Throughout the first half of 2021, HSBC Continental Europe has continued its efforts to provide the capability to offer new near risk-free rate ('RFR') products, and subsequently actively offer customers the ability to transition from Libor based products.

Provision of alternative rate and RFR product capabilities

All of HSBC Continental Europe's global businesses actively developed and implemented system and operational capabilities for the majority of alternative rates, such as base or prime rates, and RFR products during 2020 and the first half 2021, with only a limited number of non-standard products requiring completion in the second half of 2021. As a result, Ibor exposures that have post-2021 maturities continue to reduce, aided by market compression of Ibor trades, and undertaking all new transactions in alternative rate and replacement RFR products, as market liquidity builds.

Additionally, HSBC is currently monitoring other industry developments related to credit sensitive rates products to determine the need to develop additional products for our clients and in support of the transition from USD Libor.

Transition legacy contracts

HSBC Continental Europe has planned to materially transition Ibor contracts by 30 September 2021, in line with industry guidelines, and has actively outreached to a material proportion of customers as at end of first half of 2021. However, given the continued impact of Covid-19 on customers, and the market, the transition of Ibor contracts is likely to be concentrated over the last months of 2021 increasing the identified regulatory compliance, legal, resilience and operational risks.

Transition continues to be actively discussed with clients and HSBC Continental Europe will be led by their level of readiness, which is being tracked to ensure adequate planning for operational activities occurring in the second half of 2021. Whilst contractual repapering and rebooking activities will be managed accordingly, as well as any requirements to invoke contractual fallback provisions, legislative solutions may still be required to allow for a smooth transition.

As a result of transition efforts HSBC Continental Europe's exposure to Ibor and Eonia derivatives, loan and bond exposures maturing beyond 2021 continues to reduce.

For the derivatives exposures, new GBP Libor transactions for linear derivatives are only undertaken for risk management purposes with an increase in Sonia volumes identified as a result. Additional industry milestones will be adhered to resulting in further exposure reduction.

For HSBC Continental Europe's loan book, all post–2021 refinancing for demising Ibors is offered on alternative rates products, and the Bank has adhered to the industry milestones related to the cessation of new Ibor loan issuance. HSBC Continental Europe continues to be active in aiding its clients in transitioning to a suitable alternative rate or replacement RFR product, before Ibor cessation

Financial instruments impacted by Ibor reforms

Financial instruments yet to transition to alternative benchmarks, by main benchmark

	USD Libor	GBP Libor	EONIA	Others[1]
	€m	€m	€m	€m
At 30 Jun 2021				
Non-derivative financial assets[2]	**2,059**	**265**	**233**	**6**
Non-derivative financial liabilities[2]	**236**	**—**	**9**	**—**
Derivative notional contract amount	**196,985**	**49,069**	**200,848**	**26,261**
At 31 Dec 2020				
Non-derivative financial assets[2]	2,098	272	1	1
Non-derivative financial liabilities[2]	229	—	2	—
Derivative notional contract amount	332,644	45,180	192,127	45,827

1 *Comprises financial instruments referencing other significant benchmark rates yet to transition to alternative benchmarks (EUR Libor, JPY Libor and CHF Libor).*
2 *Gross carrying amount excluding allowances for expected credit losses.*

The amounts in the above table relate to HSBC Continental Europe's main operating entities where there are material exposures impacted by Ibor reform, including France, the Netherlands, Spain and Ireland. The amounts provide an indication of the extent of HSBC Continental Europe's exposure to the Ibor benchmarks that are due to be replaced. Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest benchmark is expected to cease;
- are recognised on HSBC Continental Europe's consolidated balance sheet.

In March 2021, the administrator of Libor, IBA, announced that the publication date of most US dollar Libor tenors is extended from 31 December 2021 to 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021. This change reduces the amounts presented at 30 June 2021 in the above table as some financial instruments included at 31 December 2020 will reach their contractual maturity date prior to the extended publication dates. Comparative data have not been re-presented.

Interest rate benchmark reform: amendments to IFRS 9 and IAS 39 'Financial Instruments'

HSBC Continental Europe has cash flow and fair value hedge accounting relationships that are exposed to different Ibors, predominantly US Dollar Libor, Sterling Libor, and Euribor as well as overnight rates subject to the market-wide benchmarks reform, such as the European overnight Index Average rate ('Eonia'). Existing financial instruments (such as derivatives, loans and bonds) designated in relationships referencing these benchmarks are expected to transition to new RFRs in different ways and at different times. External progress on the transition to RFRs is being monitored within HSBC Continental Europe, with the objective of ensuring a smooth transition for HSBC Continental Europe's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the Balance Sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to banks', 'Loans and advances to customers'.

The notional amounts of Interest Rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by HSBC Continental Europe that is expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 and Phase 2 amendments. HSBC Continental Europe cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

Hedging instruments impacted by Ibor reform

	Hedging instruments						
	Impacted by Ibor reform						
	EUR	GBP	USD	Other	Total	Not impacted by Ibor reform	Notional Amount[1]
	€m	€m	€m	€m	€m	€m	€m
Fair Value Hedges	**1,502**	**25**	**352**	**—**	**1,879**	**3,572**	**5,451**
Cash Flow Hedges	**7,304**	**—**	**—**	**—**	**7,304**	**—**	**7,304**
At 30 Jun 2021	**8,806**	**25**	**352**	**—**	**9,183**	**3,572**	**12,755**
Fair Value Hedges	6,105	25	365	—	6,495	1,974	8,469
Cash Flow Hedges	6,808	—	—	—	6,808	—	6,808
At 31 Dec 2020	12,913	25	365	—	13,303	1,974	15,277

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at balance sheet date; they do not represent amounts at risk.*

The main market events in scope of Ibor reform during 2020 were the changes applied by central clearing counterparties to remunerating EURO and US dollar collateral. While there was a minimal valuation impact to the derivatives in scope that are used for hedge accounting, these changes had no discontinuation impact to any of the designated relationships affected. The main market events in scope of Ibor reform during 2021 are expected to be the bulk transition of cleared derivatives towards the end of the year for GBP and EUR.

Covid-19

The Covid-19 pandemic and its effect on the global economy have impacted our customers and our performance, and the future effects of the pandemic are uncertain. There remains a risk of subsequent waves of infection, as evidenced by recently emerged new, more transmissible variants of the virus, such as the Delta variant. Renewed outbreaks in the first half of 2021 emphasise the ongoing threat of Covid-19.

Government restrictions imposed around the world to limit the spread of Covid-19 resulted in a sharp contraction in global economic activity during 2020, including countries in Europe. At the same time governments across continental Europe took steps designed to soften the extent of the damage to investment, trade and labour markets. There has been some evidence of an increase in economic activity across our various markets in the first half of 2021, notably in France, as government targets for unlocking mobility restrictions have been met. A roll-out of vaccination programmes, coupled with non-pharmacological measures to contain the virus, has resulted in declines in infection rates, hospitalisations and deaths. There remains however a high degree of uncertainty associated with economic forecasts in the current environment.

There is a material risk of a renewed drop in economic activity. This will leave the burden on governments and central banks to maintain or increase fiscal and monetary stimulus.

HSBC Continental Europe has initiated market-specific measures to support its personal and business customers through these challenging times. It has also actively participated in the governmental support schemes, mainly in France.

In 2020, the rapid introduction of the government support schemes, as well as customer expectations, has led to heightened operational, conduct-related, fraud, and reputational risks as the bank had to adapt itself in a short period of time. These risks are likely to be heightened further as and when those support schemes are unwound. HSBC Continental Europe is focused upon avoiding any conduct risks that may arise from the implementation of decisions it has to make and also those that may be created if our customers find themselves in financial difficulties as a result of Covid-19.

As of today, no material operational losses have been recorded due to Covid-19.

Credit Risk

The review of counterparties under potential stress has been reinforced since the beginning of the Covid-19 crisis, with a focus on the early identification of cases that showed signs of credit worthiness deterioration.

Whilst Credit Risk RWAs increased in 2020 as a result of the deferral of repayments, approval of waiver requests, additional financing requests, precautionary drawdown by companies of their revolving credit facilities and the downgrading of clients' risk rating, the situation has stabilised in the first half of 2021. Companies' Full Year 2020 financials published so far are showing better than expected resilience overall.

Expected Credit Losses ('ECL') increased significantly last year on Stages 1 & 2, reflecting the deterioration of the overall credit worthiness of the portfolio, which consequently increases the ECL for Stage 1 & 2. Whilst Stage 3 impairments materially increased in 2020 as some companies entered into default, the level of Stage 3 impairments has significantly reduced in the first half of 2021 reflecting a reduction in number of new cases going into financial restructuring.

Expected Credit Losses

The impact of the outbreak on the long-term prospects of businesses is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges or operational losses. The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have materially impacted the performance of financial models. In particular, IFRS 9 model performance has been dramatically impacted over the course of 2020 and the first half of 2021 which has increased reliance on management judgment in determining the appropriate level of ECL estimates. As a matter of fact, these models are driven by forecasts of economic factors such as GDP and unemployment, such that in many cases they were not able to deliver reliable outputs given the dramatic volatility in these forecasts, many of which significantly exceeded observed historic extremes. There has also been an unprecedented response from governments to provide a variety of economic stimulus packages to support livelihoods and the highest hit business sectors which could not be predicted by models.

HSBC Continental Europe operational resilience over the crisis, and coming challenges

The Covid-19 event has been effectively managed at HSBC Continental Europe. At the peak, around 95 per cent of the main offices employees were successfully working from home, with only exceptional roles continuing onsite. There have been no material operational issues experienced.

The key support provided by the IT infrastructure for home working has enabled teams to successfully adapt and maintain key deliverables during this challenging period. Working from home has arguably become the 'new normal' and in parallel to the slowdown of the crisis, we have been working on increasing HSBC Continental Europe remote working capability (including a new collective agreement in France). Our Video conferencing technology has performed well.

The main risks identified during the crisis have been actively monitored

Operational Risk: The dependency on offshore locations, and our IT infrastructure is clear. The response from our offshore locations has been at the expected standards. In the first half of 2021 we experienced a further outbreak in India where a significant part of our offshore support is located. It has created some delays in transformation initiatives but no major operational issues had to be reported. We continue to work on an on-going basis to manage potential operational and concentration risks in partnership with our service centre entities.

Remote working is becoming more and more accepted by employees. As long as the Covid-19 situation remains we will keep the IT infrastructure and our protocols in place to be able to return to full home working if necessary.

Control Environment: Covid-19 has led to some exceptions to standard practices, some of which will be maintained for the longer term.

Coming challenges

The return to workplace plans are in place and progressively being implemented in alignment with local governmental policies. Supporting the staff through this transition, in parallel of the implementation of news ways of working post Covid-19 will be one of the key focus in the second half of 2021. This will involve a mix of main office working, contingency site, and Working from Home ('WFH'). Union representatives have been consulted on the new working agreements which have been put into place to enable remote working and new ways of working on a more sustainable basis post Covid-19. The embedding of this cultural change will be critical to transition out of the Covid-19 crisis.

The DBS teams have continued to work with all Global Businesses to ensure resiliency under a range of operating scenarios and are continuing to actively monitor other risk levels across the business, particularly increased operational risk (staff capacity, largely mitigated by the rapid move to remote working), reputational risk, and fraud.

Further to our operational response to the pandemic, specific attention is given to the impact of Covid-19 across our key regulatory change programmes. The wider implications of potential material impacts are monitored, in order to ensure our Regulatory Compliance Risk profile remains reflective and accurate.

All of our businesses and functions have focused on understanding what processes needed to change to accommodate a working from home model and also to operate effectively in the 'new normal,' which we anticipate will involve a mix of main office working, contingency site, and working from home. A Covid-19 Inventory is now in place to document all known exceptions to how teams are operating versus what had previously occurred in business as usual. Such exceptional handling has been agreed through formal governance arrangements.

People risk

The exceptional Covid-19 crisis, has increased the people risk during lockdown periods imposed by authorities. These periods have generated more uncertainty, interrogations, anxiety, stress, and make difficult the work life balance with some employees feeling isolated, some others feeling overworked especially for those taking care of children while schools were closed.

The end of lockdown raised new concerns mainly linked with security in public transportation and with workplace conditions on site.

All such elements lead to an increase in overall psycho-social risks.

In order to mitigate those risks over this difficult year, several actions focused on employee/clients health and safety, were taken:

- Regular written communications, including authorities' messages and guidelines, sharing best practices and encouraging employees to keep in touch with their colleagues and the company overall sent to employees through different channels.
- Specific tool kit trainings on resilience and remote management to support managers and employees in the current difficult context.
- Awareness of HR teams and the HR Contact centre to answer employees' queries.
- Detailed daily reporting on Covid-19 cases in order to be informed on the evolving health situation within the company.
- To support or allow employees' vaccination in France, the Health and Safety team has been allowed to vaccinate employees on a voluntary basis.

More specifically, at the end of the lockdown, additional actions were taken to respond to certain employee's reluctance to return back to the office:

- Progressive return to the workplace with a maximum employee occupancy on site by phases (updated with the Health Authorities decisions) associated with remote working maintained as much as possible and flexibility on arrival/departure hours,

- Sanitary measures such as hydro-alcoholic gel available at entrance building/floor, enhanced daily desk cleaning, and masks provided to employees,
- Social distancing organised through floor markings, lifts with limited occupancy, serving packed lunch in company restaurant,
- Vaccinations proposed by Health and Safety Team.

Model Risk

The unprecedented character of the economic and financial disruptions created by the Covid-19 crisis is a challenge to modelling. Models, in the sense of quantitative methods that apply mathematical techniques and assumptions to process input data into quantitative estimates, are used by the bank for a wide range of purposes, including calculation of risk-weighted assets, loan impairment charges, fair valuation of some financial instruments, financial crime and fraud risk management, stress testing, and credit approvals.

All models are based on a fundamental assumption that there exist some stable relationships between various aspects of the modelled situation, or in other terms that the future will look like the past. Hence they cannot be trusted to provide wholly reliable predictions in an unprecedented state of affairs such as the deep recession and speedy recovery caused by the current health crisis.

Amongst the main impacted models are the Credit Risk models used for capital requirements and accounting provisions: they are based on lagged data and on past patterns which may not reflect the actual economic situation of borrowers or the prospects they face for the future. In particular, they may not properly take into account the benefit brought by the extremely substantial government interventions in the economy, or the potential negative effect of the progressive withdrawal of such measures.

Likewise, in Market Risk, value-at-risk (‘VaR’) models are based on an assumption of stable market conditions and therefore still assume a high probability of returning to the very high price volatility observed around March 2020, resulting in stressed scenarios which may be too large for current conditions.

The bank is dealing with this situation by a strong focus on the performance of the models, and by instructing model users to apply professional judgement when considering model output. Some model redevelopments have been undertaken, in particular in the Credit Risk space, to enforce realistic predictions in case of extreme scenarios; on the longer term, models are expected to progressively recover their predictive power as the pace of changes slows down, and many models are already incorporating recent crisis-related data in their calibrations.

Market risk

Dedicated Covid-19 stress tests did not exhibit significant potential market risk losses on Trading portfolios. They showed a significant increase in the bank's Counterparty Credit Risk exposure but this was concentrated on collateralised or investment grade counterparties.

Stock markets have significantly recovered since March 2020 and the market panic of the peak of Covid-19 crisis. Inflation concerns have reappeared lately, though central banks have maintained the accommodating policy to support the economic recovery.

Insurance

The company has been able to observe the impact of the pandemic on the death rate of its policyholders. Relating to policyholders who have underwritten protection products (term life or creditor insurance), the impact of the pandemic is very low. Over the first months of 2021, three death claims related to Covid-19 were identified as credit insurance policyholders, also one death claim and three disability claims for term life. This observation is to be linked to the average age of the insured persons concerned (47 years). The average age of policyholders who have underwritten savings products is significantly higher (67 years) and as a result there is a certain increase in the mortality rate in this population.

Indeed, according to INSEE, over the period from 1 January 2021 to 10 May 2021 compared to the same period in 2019, the number of deaths only increases significantly for people over 65 years old: deaths are higher than in 2019 for people from 65 to 74 (+ 13 per cent) and from 75 to 84 (+ 13 per cent), the excess of mortality is now less marked for the people of 85 and over (+ 8 per cent).

Capital and Liquidity

According to the enhancement of ECB measures in December 2020 allowing additional TLTRO participation and in order to help customers meet their funding needs, HSBC Continental Europe has taken an additional EUR 1.06 billion TLTROIII. In addition, and given the significant excess of liquidity in the market leading to leverage constraints for banks, the European Central Bank has announced the extension of the temporary exemption of certain Central Bank Exposures from the Leverage Ratio until March 2022.

Conclusion

There remain significant uncertainties in assessing the duration of the Covid-19 outbreak and its impact. The actions taken by the French and many other European Governments and the European Central Bank provide an indication of the potential severity of the downturn and post-recovery environment, which from a commercial, regulatory and risk perspective could be significantly different to past crises and persist for a prolonged period.

There is a remaining risk, despite the ongoing recovery, that economic activity remains below pre-pandemic norms for a prolonged period. This could result in a materially adverse effect on our financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

We continue to monitor the situation closely, and given the novel and prolonged nature of the outbreak, additional mitigating actions may be required.

Credit Risk

Credit risk profile

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

There were no material changes to the policies and practices for the management of credit risk in the first half of 2021.

A summary of our current policies and practices for the management of credit risk is set out in ‘Credit risk management’ of the *Universal Registration Document 2020*.

Summary of credit risk

The following tables analyse loans by industry sector which represent the concentration of exposures in which how credit risks are managed.

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Methodology

We use multiple economic scenarios to reflect assumptions about future economic conditions, starting with three economic scenarios based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where, in management's judgement, the consensus forecast distribution does not adequately capture the relevant risks.

The three economic scenarios represent the 'most likely' outcome and two less likely outcomes referred to as the Upside and Downside scenarios. An additional downside scenario has been created to reflect management's view of uncertainties and risks surrounding the trajectory and impact of Covid-19. During the first half of 2021, the weighting ascribed to the consensus Downside scenario was marginally reduced and that of the Central scenario increased.

At each review of the economic scenarios, HSBC Continental Europe is involved in order to provide local insights into the development of the globally consistent economic scenarios. In addition, HSBC recognises that the Consensus Economic Scenario approach may be insufficient in certain economic environments. As a consequence, additional analysis may be requested at management's discretion, and management overlays may be required if the ECL outcome calculated using the scenarios does not fully reflect the high degree of uncertainty in estimating the distribution of ECL in certain circumstances.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

	30 Jun 2021		31 Dec 2020	
	Gross carrying/ nominal amount	**Allowance/ provision for ECL[1]**	Gross carrying/ nominal amount	Allowance/provision for ECL[1]
	€m	**€m**	€m	€m
Loans and advances to customers at amortised cost	**55,666**	**(796)**	57,045	(820)
– personal[2]	**22,996**	**(177)**	22,885	(193)
– corporate and commercial	**28,791**	**(580)**	30,987	(605)
– non-bank financial institutions	**3,879**	**(39)**	3,173	(22)
Loans and advances to banks at amortised cost	**6,589**	**(1)**	6,782	(1)
Other financial assets measured at amortised cost	**80,650**	**(1)**	71,750	(2)
– cash and balances at central banks	**40,460**	**—**	29,509	(1)
– items in the course of collection from other banks	**682**	**—**	224	—
– reverse repurchase agreements – non trading	**17,481**	**—**	21,522	—
– financial investments[3]	**6**	**—**	6	—
– prepayments, accrued income and other assets[4]	**22,021**	**(1)**	20,489	(1)
Total gross carrying amount on balance sheet	**142,905**	**(798)**	135,577	(823)
Loans and other credit related commitments	**94,457**	**(24)**	97,892	(21)
– personal	**1,326**	**—**	1,352	(1)
– corporate and commercial	**38,921**	**(16)**	41,102	(12)
– financial	**54,210**	**(8)**	55,438	(8)
Financial guarantees[5]	**9,117**	**(12)**	1,051	(9)
– personal	**25**	**—**	26	—
– corporate and commercial	**8,633**	**(12)**	531	(9)
– financial	**459**	**—**	494	—
Total nominal amount off-balance sheet[6]	**103,574**	**(36)**	98,943	(30)
Total nominal amount on-balance sheet and off-balance sheet	**246,479**	**(834)**	234,520	(853)

	Fair value	**Memorandum allowance for ECL[7]**	Fair value	Memorandum allowance for ECL[7]
	€m	**€m**	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**16,332**	**(7)**	19,139	(8)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Of which EUR 17,148 million guaranteed by Crédit Logement as at 30 June 2021 (31 December 2020: EUR 16,827 million).*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 65 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
4 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 65 includes both financial and non-financial assets.*
5 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 is not applied.*
6 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
7 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 30 June 2021

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost	46,756	7,526	1,343	41	55,666	(46)	(95)	(644)	(11)	(796)	0.1	1.3	48.0	26.8	1.4
– personal[3]	21,917	685	394	–	22,996	(8)	(24)	(145)	–	(177)	–	3.5	36.8	–	0.8
– corporate and commercial	21,324	6,535	891	41	28,791	(35)	(69)	(465)	(11)	(580)	0.2	1.1	52.2	26.8	2.0
– non-bank financial institutions	3,515	306	58	–	3,879	(3)	(2)	(34)	–	(39)	0.1	0.7	58.6	–	1.0
Loans and advances to banks at amortised cost	6,535	54	–	–	6,589	(1)	–	–	–	(1)	–	–	–	–	–
Other financial assets measured at amortised cost	80,629	19	2	–	80,650	–	–	(1)	–	(1)	–	–	50.0	–	–
Loan and other credit-related commitments	91,534	2,865	58	–	94,457	(9)	(9)	(6)	–	(24)	–	0.3	10.3	–	–
– personal	1,298	26	2	–	1,326	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	36,502	2,372	47	–	38,921	(7)	(3)	(6)	–	(16)	–	0.1	12.8	–	–
– financial	53,734	467	9	–	54,210	(2)	(6)	–	–	(8)	–	1.3	–	–	–
Financial guarantees[4]	9,006	86	24	1	9,117	(4)	(6)	(2)	–	(12)	–	7.0	8.3	–	0.1
– personal	24	–	1	–	25	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	8,555	54	23	1	8,633	(4)	(6)	(2)	–	(12)	–	11.1	8.7	–	0.1
– financial	427	32	–	–	459	–	–	–	–	–	–	–	–	–	–
At 30 Jun 2021	**234,460**	**10,550**	**1,427**	**42**	**246,479**	**(60)**	**(110)**	**(653)**	**(11)**	**(834)**	**–**	**1.0**	**45.8**	**26.2**	**0.3**

1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
2 Purchased or originated credit-impaired ('POCI').
3 Of which EUR 17,148 million guaranteed by Crédit Logement as at 30 June 2021.
4 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due and are transferred from Stage 1 to Stage 2.

The disclosure below presents the ageing of Stage 2 financial assets by those less than 30 and greater than 30 days past due and therefore presents those financial assets classified as Stage 2 due to ageing (30 days past due) and those identified at an earlier stage (less than 30 days past due). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 days past due analysis at 30 June 2021

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	7,526	*68*	*36*	(95)	*(1)*	*(1)*	1.3	*1.5*	*2.8*
– personal	685	*35*	*26*	(24)	*(1)*	*(1)*	3.5	*2.9*	*3.8*
– corporate and commercial	6,535	*33*	*10*	(69)	–	–	1.1	–	–
– non-bank financial institutions	306	–	–	(2)	–	–	0.7	–	–
Loans and advances to banks at amortised cost	54	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	19	–	–	–	–	–	–	–	–

1 Days past due ('DPD'). Up-to-date accounts in Stage 2 are not shown in amounts presented above.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2020

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost	48,183	7,470	1,350	42	57,045	(36)	(111)	(661)	(12)	(820)	0.1	1.5	49.0	28.6	1.4
– personal[3]	21,648	807	430	—	22,885	(9)	(28)	(156)	—	(193)	—	3.5	36.3	—	0.8
– corporate and commercial	23,521	6,529	895	42	30,987	(25)	(82)	(486)	(12)	(605)	0.1	1.3	54.3	28.6	2.0
– non-bank financial institutions	3,014	134	25	—	3,173	(2)	(1)	(19)	—	(22)	0.1	0.7	76.0	—	0.7
Loans and advances to banks at amortised cost	6,740	42	—	—	6,782	(1)	—	—	—	(1)	—	—	—	—	—
Other financial assets measured at amortised cost	71,728	19	3	—	71,750	(1)	—	(1)	—	(2)	—	—	33.3	—	—
Loan and other credit-related commitments	94,964	2,871	57	—	97,892	(5)	(12)	(4)	—	(21)	—	0.4	7.0	—	—
– personal	1,318	32	2	—	1,352	(1)	—	—	—	(1)	0.1	—	—	—	0.1
– corporate and commercial	38,623	2,424	55	—	41,102	(3)	(5)	(4)	—	(12)	—	0.2	7.3	—	—
– financial	55,023	415	—	—	55,438	(1)	(7)	—	—	(8)	—	1.7	—	—	—
Financial guarantees[4]	923	98	29	1	1,051	(2)	(5)	(2)	—	(9)	0.2	5.1	6.9	—	0.9
– personal	25	—	1	—	26	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	448	54	28	1	531	(2)	(5)	(2)	—	(9)	0.4	9.3	7.1	—	1.7
– financial	450	44	—	—	494	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2020	222,538	10,500	1,439	43	234,520	(45)	(128)	(668)	(12)	(853)	—	1.2	46.4	27.9	0.4

1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
2 Purchased or originated credit-impaired ('POCI').
3 Of which EUR 16,827 million guaranteed by Crédit Logement as at 31 Dec 2020.
4 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

Stage 2 days past due analysis at 31 December 2020

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	7,470	*48*	*31*	(111)	*(1)*	*(1)*	1.5	*2.1*	*3.2*
– personal	807	*38*	*29*	(28)	*(1)*	*(1)*	3.5	*2.6*	*3.4*
– corporate and commercial	6,529	*9*	*2*	(82)	—	—	1.3	—	—
– non-bank financial institutions	134	*1*	—	(1)	—	—	0.7	—	—
Loans and advances to banks at amortised cost	42	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	19	—	—	—	—	—	—	—	—

1 Days past due ('DPD'). Up-to-date accounts in Stage 2 are not shown in amounts presented above.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees[1]

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2021	**103,833**	**(42)**	**10,482**	**(130)**	**1,435**	**(667)**	**42**	**(12)**	**115,792**	**(851)**
Transfers of financial instruments	(753)	(19)	665	20	88	(1)	–	–	–	–
– transfers from Stage 1 to Stage 2	(2,430)	3	2,430	(3)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	1,684	(22)	(1,684)	22	–	–	–	–	–	–
– transfers to Stage 3	(19)	–	(112)	3	131	(3)	–	–	–	–
– transfers from Stage 3	12	–	31	(2)	(43)	2	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	10	–	(11)	–	–	–	–	–	(1)
New financial assets originated or purchased	21,350	(13)	–	–	–	–	1	–	21,351	(13)
Asset derecognised (including final repayments)	(6,816)	2	(294)	6	(105)	29	(1)	1	(7,216)	38
Changes to risk parameters – further lending/repayments	(8,971)	6	(323)	16	51	37	(1)	–	(9,244)	59
Changes to risk parameters – credit quality	–	(1)	–	(14)	–	(90)	–	–	–	(105)
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
Assets written off	–	–	–	–	(39)	39	–	–	(39)	39
Credit related modifications that resulted in derecognition	–	–	–	–	(1)	–	–	–	(1)	–
Foreign exchange	37	–	5	–	(3)	–	–	–	39	–
Others	196	–	(2)	1	–	–	–	–	194	1
At 30 Jun 2021	**108,876**	**(57)**	**10,533**	**(112)**	**1,426**	**(653)**	**41**	**(11)**	**120,876**	**(833)**
ECL release/(charge) for the period		4		(3)		(24)		1		(22)
Add: Recoveries										1
Add/(less): Others										1
Total ECL release/(charge) for the period										**(20)**

	At 30 Jun 2021		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	**120,876**	**(833)**	**(20)**
Other financial assets measured at amortised cost	80,650	(1)	–
Non-trading reverse purchase agreement commitments	44,953	–	–
Performance and other guarantees not considered for IFRS 9			21
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	**246,479**	**(834)**	**1**
Debt instruments measured at FVOCI	16,332	(7)	–
Total allowance for ECL/total income statement ECL charge for the period	**262,811**	**(841)**	**1**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees[1]

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2020	103,688	(50)	4,967	(57)	1,260	(592)	47	(11)	109,962	(710)
Transfers of financial instruments	(4,961)	(31)	4,284	38	677	(7)	—	—	—	—
– transfers from Stage 1 to Stage 2	(10,282)	14	10,282	(14)	—	—	—	—	—	—
– transfers from Stage 2 to Stage 1	5,432	(46)	(5,432)	46	—	—	—	—	—	—
– transfers to Stage 3	(116)	2	(687)	11	803	(13)	—	—	—	—
– transfers from Stage 3	5	(1)	121	(5)	(126)	6	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	33	—	(26)	—	(1)	—	—	—	6
New financial assets originated or purchased	33,268	(19)	—	—	—	—	11	(1)	33,279	(20)
Asset derecognised (including final repayments)	(11,853)	3	(909)	11	(447)	138	(2)	1	(13,211)	153
Changes to risk parameters – further lending/repayments	(16,201)	14	2,159	9	72	134	(14)	(1)	(13,984)	156
Changes to risk parameters – credit quality	—	7	—	(103)	—	(465)	—	—	—	(561)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(124)	124	—	—	(124)	124
Credit related modifications that resulted in derecognition	—	—	—	—	(2)	1	—	—	(2)	1
Foreign exchange	(146)	1	(19)	—	(1)	1	—	—	(166)	2
Others	38	—	—	(2)	—	—	—	—	38	(2)
At 31 Dec 2020	103,833	(42)	10,482	(130)	1,435	(667)	42	(12)	115,792	(851)
ECL release/(charge) for the period		38		(109)		(194)		(1)		(266)
Add: Recoveries										2
Add/(less): Others										(6)
Total ECL release/(charge) for the period										(270)

	At 31 Dec 2020		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	115,792	(851)	(270)
Other financial assets measured at amortised cost	71,750	(2)	—
Non-trading reverse purchase agreement commitments	46,975	—	—
Performance and other guarantees not considered for IFRS 9			(17)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	234,517	(853)	(287)
Debt instruments measured at FVOCI	19,139	(8)	(2)
Total allowance for ECL/total income statement ECL charge for the period	253,656	(861)	(289)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Customer relief programmes

In response to the Covid-19 pandemic, governments around the world have introduced a number of support measures for both personal and wholesale customers.

The following table presents the number of customers and drawn loan values of customers under these schemes and schemes independently implemented by the HSBC Continental Europe at 30 June 2021.

Personal lending

Extant at 30 Jun 2021		HSBC Continental Europe	France	Others[1]
Market-wide schemes				
Number of customers granted mortgage customer relief		—	—	—
Drawn loan value of customers granted mortgage customer relief	€m	—	—	—
Number of customers granted other personal lending customer relief		546	546	—
Drawn loan value of customers granted other personal lending customer relief	€m	44	44	—
HSBC-specific measures				
Number of customers granted mortgage customer relief		21	—	21
Drawn loan value of customers granted mortgage customer relief	€m	3	—	3
Number of customers granted other personal lending customer relief		26	26	—
Drawn loan value of customers granted other personal lending customer relief	€m	8	8	—
Total personal lending to major markets under market-wide schemes and HSBC-specific measures				
Number of customers granted mortgage customer relief		21	—	21
Drawn loan value of customers granted mortgage customer relief	€m	3	—	3
Number of customers granted other personal lending customer relief		572	572	—
Drawn loan value of customers granted other personal lending customer relief	€m	52	52	—
Market-wide schemes and HSBC-specific measures – mortgage relief as a proportion of total mortgages	%	0.1	—	0.8
Market-wide schemes and HSBC-specific measures – other personal lending relief as a proportion of total other personal lending loans and advances	%	0.3	0.3	—

Wholesale lending

Extant at 30 Jun 2021		HSBC Continental Europe	France	Others[1]
Market-wide schemes				
Number of customers under market-wide measures		5,070	5,058	12
Drawn loan value of customers under market-wide schemes	€m	3,952	3,866	86
HSBC-specific schemes				
Number of customers under bank-specific measures		105	99	6
Drawn loan value of customers under bank-specific measures	€m	993	731	262
Total wholesale lending to major markets under market-wide schemes and HSBC-specific measures				
Number of customers		5,175	5,157	18
Drawn loan value	€m	4,945	4,597	348
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	17.5	17.6	15.8

1 *Others include HSBC Continental Europe Madrid Branch, Athens Branch, Poland Branch, Milan Branch and HSBC Middle East Leasing Partnership.*

Personal lending (continued)

Extant at 31 Dec 2020		HSBC Continental Europe	France	Others[1]
Market-wide schemes				
Number of customers granted mortgage customer relief		—	—	—
Drawn loan value of customers granted mortgage customer relief	€m	—	—	—
Number of customers granted other personal lending customer relief		512	512	—
Drawn loan value of customers granted other personal lending customer relief	€m	43	43	—
HSBC-specific measures				
Number of customers granted mortgage customer relief		21	—	21
Drawn loan value of customers granted mortgage customer relief	€m	3	—	3
Number of customers granted other personal lending customer relief		315	315	—
Drawn loan value of customers granted other personal lending customer relief	€m	95	95	—
Total personal lending to major markets under market-wide schemes and HSBC-specific measures				
Number of customers granted mortgage customer relief		21	—	21
Drawn loan value of customers granted mortgage customer relief	€m	3	—	3
Number of customers granted other personal lending customer relief		827	827	—
Drawn loan value of customers granted other personal lending customer relief	€m	138	138	—
Market-wide schemes and HSBC-specific measures – mortgage relief as a proportion of total mortgages	%	0.1	—	0.8
Market-wide schemes and HSBC-specific measures – other personal lending relief as a proportion of total other personal lending loans and advances	%	0.7	0.7	—

Wholesale lending (continued)

Extant at 31 Dec 2020		HSBC Continental Europe	France	Others[1]
Market-wide schemes				
Number of customers under market-wide measures		4,943	4,933	10
Drawn loan value of customers under market-wide schemes	€m	4,452	4,330	122
HSBC-specific schemes				
Number of customers under bank-specific measures		333	329	4
Drawn loan value of customers under bank-specific measures	€m	1,437	1,201	236
Total wholesale lending to major markets under market-wide schemes and HSBC-specific measures				
Number of customers		5,276	5,262	14
Drawn loan value	€m	5,889	5,531	358
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	21.0	21.5	16.0

1 *Others include HSBC Continental Europe Madrid Branch, Athens Branch, Poland Branch and HSBC Middle East Leasing Partnership.*

Following the exceptional measures taken by HSBC Continental Europe to protect itself and its clients and participate in the prevention of an economic collapse in 2020, deferral of repayments for corporate clients continue to be considered on a case-by-case basis. In addition, HSBC Continental Europe continued in 2021 to grant new *Pret Garanti* par *l'Etat ('PGE')* loans for which more than 6,650 requests have been received since the beginning of the pandemic.

Treasury risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements. Treasury risk also includes the risk to our earnings or capital due to structural foreign exchange exposures and changes in market interest rates.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

Our objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support our business strategy, and meet our regulatory and stress testing-related requirements.

Our approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting regulatory requirements at all times.

Our policy is underpinned by our risk management framework, our Internal Capital Adequacy Assessment Process ('ICAAP') and our Internal Liquidity Adequacy Assessment Process ('ILAAP'). The risk framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes.

These risks include credit, market, operational, pensions, structural foreign exchange and interest rate risk in the banking book.

The ECB is the supervisor of the bank and sets capital requirements and receives information on the capital and liquidity adequacy.

Governance

Capital and liquidity are the responsibility of the HSBC Continental Europe Executive Committee and are overseen by the HSBC Continental Europe Board. Treasury risks are managed through the Asset and Liability Management Committee ('ALCO').

Capital

Overview

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

A summary of HSBC Continental Europe's policies and practices regarding capital management, measurement and allocation is provided on page 129 of the *Universal Registration Document 2020*.

Regulatory developments

Refer to Regulatory Environment section on page 8.

Key capital numbers ('KM1')[1] (Unaudited)

		At 30 Jun 2021 €m	31 Dec 2020 €m	30 Jun 2020 €m
	Available own funds (amounts)			
1	Common Equity Tier 1 ('CET1') capital	**5,681**	5,798	6,217
2	Tier 1 capital	**6,431**	6,548	6,967
3	Total capital	**7,837**	7,972	8,373
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	**47,702**	46,113	49,257
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	**11.9**	12.6	12.6
6	Tier 1 ratio (%)	**13.5**	14.2	14.1
7	Total capital ratio (%)	**16.4**	17.3	17.0
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
EU 7a	Additional CET1 SREP requirements (%)	**1.7**	1.7	1.7
EU 7b	Additional AT1 SREP requirements (%)	**0.6**	0.6	0.6
EU 7c	Additional T2 SREP requirements (%)	**0.8**	0.8	0.8
EU 7d	Total SREP own funds requirements (%)	**11.0**	11.0	11.0
	Combined buffer 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 (%)	**0.02**	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 (%)	**0.9**	1.6	1.6
	Leverage ratio			
13	Leverage ratio total exposure measure	**150,461**	154,908	203,464
14	Leverage ratio	**4.3**	4.2	3.4
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)			
EU 14a	Additional CET1 leverage ratio requirements (%)	**—**		
EU 14b	Additional AT1 leverage ratio requirements (%)	**—**		
EU 14c	Additional T2 leverage ratio requirements (%)	**—**		
EU 14d	Total SREP leverage ratio requirements (%)	**3.4**		
EU 14e	Applicable leverage buffer	**—**		
EU 14f	Overall leverage ratio requirements (%)	**3.4**		
	Liquidity Coverage Ratio ('LCR')			
15	Total high-quality liquid assets ('HQLA') (Weighted value -average)	**48,748**	39,264	49,763
EU 16a	Cash outflows – Total weighted value	**40,595**	32,834	37,359
EU 16b	Cash inflows – Total weighted value	**6,745**	5,314	7,505
16	Total net cash outflows (adjusted value)	**33,850**	27,520	29,854
17	Liquidity coverage ratio (%)	**144.0**	143.0	167.0
	Net Stable Funding Ratio ('NSFR')[2]			
18	Total available stable funding	**82,827**		
19	Total required stable funding	**60,653**		
20	NSFR ratio (%)	**137.0**	136.0	129.0

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.*

RWA movement by global business by key driver (Unaudited)

	Credit risk, counterparty credit risk and operational risk				Market risk	Total RWA
	WPB	CMB	GB&M	Corporate Centre		
	€m	€m	€m	€m	€m	€m
RWAs at 31 Dec 2020	**9,439**	**16,354**	**16,899**	**759**	**2,662**	**46,113**
Asset size	**227**	**(551)**	**(646)**	**(55)**	**1,039**	**15**
Asset quality	**(42)**	**12**	**226**	**—**	**—**	**196**
Model updates	**80**	**—**	**76**	**—**	**355**	**511**
Methodology and policy[1]	**43**	**(202)**	**813**	**—**	**213**	**867**
Total RWA movement	**308**	**(741)**	**469**	**(55)**	**1,607**	**1,589**
RWAs at 30 Jun 2021	**9,747**	**15,613**	**17,368**	**704**	**4,269**	**47,702**

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).*

Regulatory balance sheet

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 on 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 cost and deducted from CET1 (subject to thresholds).

Reconciliation of balance sheet – financial accounting to regulatory scope of consolidation ('CC2') (Unaudited)

	Accounting balance sheet	De-consolidation of insurance/ other entities	Regulatory balance sheet
	€m	€m	€m
Assets			
Cash and balances at central banks	**40,460**	**–**	**40,460**
Items in the course of collection from other banks	**682**	**–**	**682**
Trading assets	**15,593**	**–**	**15,593**
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**12,810**	**(12,429)**	**381**
Derivatives	**41,744**	**(20)**	**41,724**
Loans and advances to banks	**6,588**	**(628)**	**5,960**
Loans and advances to customers	**54,870**	**470**	**55,340**
– *of which:* *impairment allowances on IRB portfolios*	***(654)***	**–**	***(654)***
impairment allowances on standardised portfolios	***(129)***	**–**	***(129)***
Reverse repurchase agreements – non-trading	**17,481**	**–**	**17,481**
Financial investments	**16,360**	**(11,173)**	**5,187**
Assets held for sale	**3**	**–**	**3**
Prepayments, accrued income and other assets	**23,284**	**(353)**	**22,934**
Current tax assets	**99**	**(7)**	**92**
Interests in associates and joint ventures	**1**	**–**	**1**
Goodwill and intangible assets	**748**	**(661)**	**87**
Deferred tax assets	**178**	**–**	**178**
Total assets at 30 Jun 2021	**230,901**	**(24,801)**	**206,100**
Liabilities and equity			
Deposits by banks	**20,271**	**(1)**	**20,270**
Customer accounts	**65,334**	**134**	**65,468**
Repurchase agreements – non-trading	**6,456**	**–**	**6,456**
Items in the course of transmission to other banks	**196**	**–**	**196**
Trading liabilities	**19,908**	**–**	**19,908**
Financial liabilities designated at fair value	**16,239**	**1,150**	**17,389**
Derivatives	**40,232**	**(9)**	**40,223**
Debt securities in issue	**4,043**	**–**	**4,043**
Accruals, deferred income and other liabilities	**24,688**	**(1,516)**	**23,172**
– *of which: retirement benefit liabilities*	***174***	***(3)***	***171***
Current tax liabilities	**87**	**(16)**	**71**
Liabilities under insurance contracts	**23,529**	**(23,529)**	**–**
Provisions	**319**	**(1)**	**318**
Deferred tax liabilities	**170**	**(165)**	**5**
Subordinated liabilities	**1,876**	**–**	**1,876**
– *of which:* *perpetual subordinated debt included in tier 2 capital*	***16***	**–**	***16***
term subordinated debt included in tier 2 capital	***1,860***	**–**	***1,860***
Total liabilities at 30 Jun 2021	**223,348**	**(23,953)**	**199,395**
Called up share capital	**491**	**–**	**491**
Share premium account	**2,137**	**–**	**2,137**
Other equity instruments	**750**	**–**	**750**
Other reserves	**1,658**	**(26)**	**1,632**
Retained earnings	**2,492**	**(822)**	**1,670**
Total shareholders' equity	**7,528**	**(848)**	**6,680**
Non-controlling interests	**25**	**–**	**25**
Total equity at 30 Jun 2021	**7,553**	**(848)**	**6,705**
Total liabilities and equity at 30 Jun 2021	**230,901**	**(24,801)**	**206,100**

Reconciliation of balance sheet – financial accounting to regulatory scope of consolidation ('CC2') (continued) (Unaudited)

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

Composition of regulatory own funds ('CC1')[1] (Unaudited)

Ref*		At 30 Jun 2021 €m	31 Dec 2020 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**2,628**	2,628
	– share premium account	**2,137**	2,137
2	Retained earnings	**2,423**	3,482
3	Accumulated other comprehensive income (and other reserves)	**1,559**	1,586
5	Transitional adjustments due to additional minority interests	**—**	—
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**138**	(1,052)
6	**Common equity tier 1 capital before regulatory adjustments**	**6,749**	6,645
	Common equity tier 1 capital: regulatory adjustments		—
7	Additional value adjustments	**(223)**	(174)
8	Intangible assets (net of related deferred tax liability)	**(85)**	(85)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	**—**	—
11	Fair value reserves related to gains or losses on cash flow hedges	**(46)**	(69)
12	Negative amounts resulting from the calculation of expected loss amounts	**(86)**	(58)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**84**	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)	**(707)**	(541)
22	Amount exceeding the 17.65% threshold	**—**	—
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**(5)**	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1,068)**	(847)
29	**Common Equity Tier 1 ('CET1') capital**	**5,681**	5,798
	Additional tier 1 ('AT1') capital: instruments		—
30	Capital instruments and the related share premium accounts	**750**	750
36	**Additional tier 1 capital before regulatory adjustments**	**750**	750
	Additional tier 1 capital: regulatory adjustments		—
42a	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**—**	—
43	**Total regulatory adjustments to Additional Tier 1 ('AT1') capital**	**—**	—
44	**Additional Tier 1 (AT1) capital**	**750**	750
45	**Tier 1 capital (T1 = CET1 + AT1)**	**6,431**	6,548
	Tier 2 ('T2') capital: instruments		—
46	Capital instruments and the related share premium accounts	**1,876**	1,876
51	**Tier 2 capital before regulatory adjustments**	**1,876**	1,876
	Tier 2 capital: regulatory adjustments		—
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	**(470)**	(470)
EU-56	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)**	**7,837**	7,972
60	**Total risk-weighted assets**	**47,702**	46,113
	Capital ratios and buffers		
61	Common equity tier 1 (%)	**11.9**	12.6
62	Tier 1 (%)	**13.5**	14.2
63	Total capital (%)	**16.4**	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 (%)	**0.02**	0.02
68	Common equity tier 1 available to meet buffers (%)	**7.4**	8.1
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**127**	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)	**626**	622
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability)	**173**	125

* *The references identify the lines prescribed in the EBA template that are applicable.*

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.*

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer ('CCyB1') (Unaudited)

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	*of which: General credit exposures*	*of which: General trading book*	*of which: Securitisation exposures*	Total	Own funds require-ments weights	CCyB rate
Country	€m	€m	€m	€m	€m	*€m*	*€m*	*€m*	€m	%	%
Algeria	3.0	0.4	—	—	—	*0.1*	—	—	0.1	—	—
Argentina	—	0.2	—	—	—	—	—	—	—	—	—
Armenia	43.1	—	—	—	—	*3.4*	—	—	3.4	0.12	—
Australia	29.0	23.3	—	—	—	*2.0*	—	—	2.0	0.07	—
Austria	—	51.0	—	—	—	*3.4*	—	—	3.4	0.12	—
Azerbaijan	61.8	34.0	—	—	—	*0.5*	—	—	0.5	0.02	—
Bahrain	1.3	0.4	—	—	—	*0.1*	—	—	0.1	—	—
Bangladesh	0.1	26.7	—	—	—	*0.2*	—	—	0.2	0.01	—
Barbados	—	29.2	—	—	—	*1.9*	—	—	1.9	0.07	—
Belgium	29.3	654.2	—	—	—	*29.6*	—	—	29.6	1.06	—
Bermuda	175.2	189.2	—	—	—	*5.8*	—	—	5.8	0.21	—
Brazil	0.1	205.0	—	—	—	*6.2*	—	—	6.2	0.22	—
Bulgaria	0.1	7.3	—	—	—	*0.1*	—	—	0.1	—	0.50
Canada	—	9.2	—	—	—	*1.7*	—	—	1.7	0.06	—
Cayman Islands	—	325.7	—	—	—	*6.0*	—	—	6.0	0.22	—
Chile	—	9.1	—	—	—	—	—	—	—	—	—
China	1.0	31.8	—	—	—	*0.1*	—	—	0.1	—	—
Colombia	—	0.8	—	—	—	—	—	—	—	—	—
Croatia	—	2.4	—	—	—	*0.2*	—	—	0.2	0.01	—
Cyprus	0.6	16.6	—	—	—	*0.7*	—	—	0.7	0.02	—
Czech Republic	78.3	343.0	—	—	—	*24.2*	—	—	24.2	0.87	0.50
Denmark	—	248.7	—	—	—	*12.9*	—	—	12.9	0.46	—
Egypt	0.7	32.5	—	—	—	*0.4*	—	—	0.4	0.01	—
Finland	3.4	234.0	—	—	—	*20.8*	—	—	20.8	0.75	—
France	5,724.1	47,143.3	—	—	1,810.0	*1,700.8*	—	*37.0*	1,737.8	62.50	—
Germany	24.6	331.2	—	—	608.1	*20.3*	—	*5.5*	25.8	0.93	—
Ghana	—	155.0	—	—	—	*3.1*	—	—	3.1	0.11	—
Greece	397.0	339.0	—	—	—	*46.7*	—	—	46.7	1.68	—
Guadeloupe	—	0.3	—	—	—	—	—	—	—	—	—
Guernsey	—	134.3	—	—	—	*3.4*	—	—	3.4	0.12	—
Hong Kong	6.7	2.7	—	—	—	*0.6*	—	—	0.6	0.02	1.00
Hungary	1.6	8.5	—	—	—	*0.3*	—	—	0.3	0.01	—
India	—	2.8	—	—	—	—	—	—	—	—	—
Indonesia	19.7	93.4	—	—	—	*3.0*	—	—	3.0	0.11	—
Ireland	216.1	1,083.4	—	—	—	*64.0*	—	—	64.0	2.30	—
Israel	—	37.4	—	—	—	*0.9*	—	—	0.9	0.03	—
Italy	234.3	1,016.7	—	—	267.0	*72.4*	—	*12.5*	84.9	3.06	—
Jersey	30.3	57.6	—	—	—	*4.4*	—	—	4.4	0.16	—
Kazakhstan	—	65.1	—	—	—	*1.6*	—	—	1.6	0.06	—
Kuwait	8.9	0.1	—	—	—	*0.4*	—	—	0.4	0.01	—
Liberia	0.1	0.1	—	—	—	—	—	—	—	—	—
Luxembourg	163.5	1,162.2	—	—	24.7	*65.3*	—	*2.0*	67.3	2.42	0.50
Malaysia	9.9	—	—	—	—	*0.4*	—	—	0.4	0.01	—
Malta	1.3	0.2	—	—	—	—	—	—	—	—	—
Mauritius	—	—	—	—	—	—	—	—	—	—	—
Mexico	23.5	56.3	—	—	—	*4.0*	—	—	4.0	0.14	—
Monaco	—	3.2	—	—	—	*0.2*	—	—	0.2	0.01	—
Montenegro	—	3.2	—	—	—	*0.1*	—	—	0.1	—	—
Morocco	—	0.6	—	—	—	—	—	—	—	—	—
Netherlands	741.3	2,560.4	—	—	303.3	*151.7*	—	*2.6*	*154.3*	5.55	—
Norway	1.5	83.6	—	—	—	*4.0*	—	—	4.0	0.14	1.00
Oman	0.8	1.0	—	—	—	*0.2*	—	—	0.2	0.01	—
Panama	3.0	191.9	—	—	—	*4.3*	—	—	4.3	0.15	—
Poland	702.2	130.3	—	—	—	*52.3*	—	—	52.3	1.88	—
Portugal	33.7	68.4	—	—	—	*4.7*	—	—	4.7	0.17	—
Qatar	18.3	28.7	—	—	—	*0.7*	—	—	0.7	0.03	—
Russian Federation	0.6	58.9	—	—	—	*0.8*	—	—	0.8	0.03	—
Saint Kitts And Nevis	9.2	—	—	—	—	*0.7*	—	—	0.7	0.03	—
Saudi Arabia	0.3	—	—	—	—	—	—	—	—	—	—
Singapore	0.6	19.1	—	—	—	*0.3*	—	—	0.3	0.01	—
Slovakia	30.1	23.0	—	—	—	*2.6*	—	—	2.6	0.10	1.00
South Africa	20.8	—	—	—	—	*1.7*	—	—	1.7	0.06	—
Spain	511.6	1,570.9	—	—	201.5	*130.9*	—	*2.5*	133.4	4.80	—
Sri Lanka	—	3.3	—	—	—	—	—	—	—	—	—

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

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	*of which: General credit exposures*	*of which: General trading book*	*of which: Securitisa-tion exposures*	Total	Own funds require-ments weights	CCyB rate
Country	**€m**	**€m**	**€m**	**€m**	**€m**	***€m***	***€m***	***€m***	**€m**	**%**	**%**
Sweden	**0.7**	**346.2**	**—**	**—**	**—**	***26.5***	**—**	**—**	**26.5**	**0.95**	**—**
Switzerland	**18.5**	**612.6**	**—**	**—**	**—**	***25.9***	**—**	**—**	**25.9**	**0.93**	**—**
Taiwan, Province Of China	**—**	**0.3**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Thailand	**—**	**106.3**	**—**	**—**	**—**	***0.3***	**—**	**—**	**0.3**	**0.01**	**—**
Turkey	**29.4**	**132.8**	**—**	**—**	**—**	***6.8***	**—**	**—**	**6.8**	**0.25**	**—**
United Arab Emirates	**88.4**	**521.4**	**—**	**—**	**—**	***20.5***	**—**	**—**	**20.5**	**0.74**	**—**
United Kingdom	**2,591.4**	**778.6**	**—**	**—**	**—**	***101.4***	**—**	***3.7***	**105.1**	**3.78**	**—**
United States	**191.1**	**1,216.4**	**—**	**—**	**—**	***65.4***	**—**	**—**	**65.4**	**2.35**	**—**
Viet Nam	**0.5**	**6.3**	**—**	**—**	**—**	***0.1***	**—**	**—**	**0.1**	**—**	**—**
Virgin Islands, British	**6.7**	**—**	**—**	**—**	**—**	***0.5***	**—**	**—**	**0.5**	**0.02**	**—**
Total	**12,289.7**	**62,631.7**	**—**	**—**	**3,214.5**	***2,714.5***	**—**	***65.8***	**2,780.3**	**100.00**	

Amount of Institution specific countercyclical buffer ('CCyB2') (Unaudited)

	At	
	30 Jun 2021	31 Dec 2020
Total Risk Exposure Amount (€m)	**47,702**	46,113
Institution specific countercyclical capital buffer rate (%)	**0.02**	0.02
Institution specific countercyclical capital buffer requirement (€m)	**9**	7

Leverage ratio

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

The new banking package published in June 2019 ('CRR2') introduces a minimum leverage ratio requirement of 3 per cent applicable as of 28 June 2021. The leverage ratio has become a binding Pillar 1 own-funds requirement since that date. The risk of excess leverage is managed as part of HSBC Continental Europe's risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

The ECB announced on 18 June 2021 that banks under its supervision may continue to exclude until March 2022 certain central bank exposures from the leverage ratio, due to persisting exceptional macroeconomic circumstances resulting from the Covid-19 pandemic. However, banks who choose to apply the exemption will also have to recalibrate their minimum 3 per cent leverage ratio requirement upwards such that only the increase of central bank exposures since the beginning of the pandemic effectively benefit from the leverage ratio relief.

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 receipt of a decision from the *Autorité de Contrôle Prudentiel et de Résolution ('ACPR')*.

This decision applies until a new decision is received and imposes an MREL requirement as a percentage of the Total Liabilities and Own Funds ('TLOF').

Following the end of the of the transition period of the UK's withdrawal from the EU, 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). In order to meet the internal TLAC requirements, HSBC Continental Europe issued Senior Non Preferred bonds in December 2020 and June 2021.

Summary reconciliation of accounting assets and leverage ratio exposures ('LRSum')[1] (Unaudited)

		At	
		30 Jun 2021	31 Dec 2020
Ref*		**€m**	€m
1	Total assets as per published financial statements	**230,901**	237,099
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(24,801)**	(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))	**(40,459)**	(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	**(7,496)**	(326)
7	Adjustment for eligible cash pooling transactions	**—**	
8	Adjustments for derivative financial instruments	**(33,826)**	(55,529)
9	Adjustment for securities financing transactions ('SFTs')	**1,928**	3,198
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**28,788**	26,337
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	**—**	
EU-11	(Adjustment for exposures excluded from the leverage ratio total exposure measure)	**—**	
EU-11	(Adjustment for exposures excluded from the leverage ratio total exposure measure)	**(1,786)**	(1,691)
12	Other adjustments	**(2,788)**	(867)
13	**Leverage ratio total exposure measure**	**150,461**	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.*

Leverage ratio common disclosure ('LRCom')[1] (Unaudited)

		At	
		30 Jun 2021	31 Dec 2020
Ref*		**€m**	€m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)[2]	**98,929**	
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)	**(8,128)**	
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)	**(1,068)**	
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**89,733**	90,071
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	**4,400**	
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**12,438**	
10	(Exempted CCP leg of client-cleared trade exposures) ('SA-CCR')	**(1,828)**	
11	Adjusted effective notional amount of written credit derivatives	**2,320**	
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(1,303)**	
13	**Total derivatives exposures**	**16,027**	15,471
Securities financing transaction ('SFT') exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**17,481**	
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(43,272)**	
16	Counterparty credit risk exposure for SFT assets	**45,200**	
18	**Total securities financing transaction exposures**	**19,409**	24,721
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	**70,594**	
20	(Adjustments for conversion to credit equivalent amounts)	**(41,806)**	
22	**Off-balance sheet exposures**	**28,788**	26,337
Excluded exposures			
EU-22a	(Exposures excluded from the leverage ratio total exposure measure)		
EU-22b	(Exposures exempted (on- and off-balance sheet))	**(1,786)**	
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	**(1,710)**	
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)**	**(3,496)**	(1,691)
Capital and total exposure measure			
23	Tier 1 capital	**6,431**	6,548
24	**Leverage ratio total exposure measure**	**150,461**	154,908
Leverage ratio			
25	Leverage ratio (%)	**4.3**	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 (%)	**—**	
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	**25,332**	
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	**19,161**	
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)	**156,632**	
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)	**197,091**	
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) (%)	**4.1**	
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) (%)	**3.3**	

* *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. 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 *Includes the temporary exemption of central bank exposures.*

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

		At 30 Jun 2021	At 31 Dec 2020
Ref*		€m	€m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**95,433**	103,598
EU-2	Trading book exposures	**26,328**	30,246
EU-3	Banking book exposures, of which:	**69,105**	73,353
EU-4	Covered bonds	**—**	—
EU-5	Exposures treated as sovereigns	**7,204**	10,285
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**18**	22
EU-7	Institutions	**1,045**	1,659
EU-8	Secured by mortgages of immovable properties	**21,510**	21,342
EU-9	Retail exposures	**3,921**	4,131
EU-10	Corporate	**28,795**	29,915
EU-11	Exposures in default	**127**	125
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**6,485**	5,874

Risk-weighted assets ('RWAs')

Overview of risk weighted exposure amounts ('EU OV1') (Unaudited)

		At 30 Jun 2021		At 31 Dec 2020	
		RWAs	Capital requirement	RWAs	Capital requirement
		€m	€m	€m	€m
1	**Credit risk**[1]	**35,212**	**2,818**	35,857	2,868
2	– standardised approach	**8,094**	**648**	8,121	664
3	– foundation IRB approach	**2,596**	**208**	3,252	260
4	– advanced IRB approach	**23,601**	**1,888**	23,185	1,855
5	– equity IRB	**921**	**74**	1,299	104
6	**Counterparty credit risk**	**4,116**	**329**	3,736	298
7	– mark-to-market	**1,160**	**93**	1,102	88
8	– original exposure	**—**	**—**	—	—
9	– standardised approach	**—**	**—**	—	—
10	– internal model method	**2,106**	**168**	2,176	174
11	– risk exposure amount for contributions to the default fund of a central counterparty	**38**	**3**	65	5
12	– credit valuation adjustment[2]	**812**	**65**	393	31
13	**Settlement risk**	**—**	**—**	—	—
14	**Securitisation exposures in the non-trading book**	**822**	**66**	574	46
14a	– internal ratings-based approach ('SEC-IRBA')	**—**	**—**	—	—
14b	– external ratings-based approach ('SEC-ERBA')	**214**	**17**	214	17
14c	– internal assessment approach ('IAA')	**344**	**28**	294	24
14d	– standardised approach ('SEC-SA')	**264**	**21**	66	5
14e	– exposure subject to the new securitisation framework	**—**	**—**	—	—
19	**Position, foreign exchange and commodities risks (Market risk)**	**4,269**	**342**	2,663	213
20	– standardised approach	**306**	**24**	339	27
21	– internal models approach	**3,963**	**318**	2,324	186
22	– large exposures	**—**	**—**	—	—
23	**Operational risk**	**3,283**	**263**	3,283	263
24	– basic indicator approach	**—**	**—**	—	—
25	– standardised approach	**3,283**	**263**	3,283	263
26	– advanced measurement approach	**—**	**—**	—	—
29	**Total**	**47,702**	**3,818**	46,113	3,688

1 'Credit Risk', here and in all tables where the term is used, excludes counterparty credit risk.
2 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).

RWA flow statements of credit risk exposures under the IRB ('CR8') (Unaudited)

		Total RWAs	Total own funds requirements
		€m	€m
1	**RWAs at 31 Dec 2020**	**26,437**	**2,115**
2	Asset size	**(447)**	**(36)**
3	Asset quality	**216**	**17**
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 Jun 2021**	**26,197**	**2,096**

RWA flow statements of CCR exposures under IMM ('CCR7') (Unaudited)

		Total RWAs	Total own funds requirements
		€m	€m
1	**RWAs at 31 Dec 2020**	**2,176**	**174**
2	Asset size	**(175)**	**(14)**
3	Asset quality	**29**	**2**
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 30 Jun 2021**	**2,106**	**168**

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

		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	**101**	**340**	**289**	**342**	**1,072**	**86**
3	Model updates/changes	**64**	**153**	**32**	**106**	**355**	**28**
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)	**608**	**1,457**	**671**	**1,014**	**3,750**	**300**
8b	Regulatory adjustment[1]	**—**	**—**	**—**	**213**	**213**	**17**
8	**RWAs at 30 Jun 2021**	**608**	**1,457**	**671**	**1,227**	**3,963**	**317**

1 *Other includes a capital buffer under VaR Completeness framework.*

Credit risk – RWA by exposure class (Unaudited)

	At 30 Jun 2021		At 31 Dec 2020	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
IRB advanced approach	**23,601**	**1,888**	23,185	1,855
– central governments and central banks	**123**	**10**	121	10
– institutions	**348**	**28**	294	24
– corporates	**17,204**	**1,376**	16,933	1,356
– *of which: specialised lending*	***233***	***19***	*579*	*46*
– total retail	**5,926**	**475**	5,837	467
– *of which:*				
secured by mortgages on immovable property – small and medium sized enterprises ('SME')	***274***	***22***	*300*	*24*
secured by mortgages on immovable property non-SME	***4,436***	***355***	*4,233*	*339*
qualifying revolving retail	**—**	**—**	—	—
other SME	***384***	***31***	*441*	*35*
other non-SME	***832***	***67***	*863*	*69*
IRB securitisation positions	**—**	**—**	—	—
IRB equity	**921**	**74**	1,299	104
IRB foundation approach	**2,596**	**208**	3,252	260
– central governments and central banks	**9**	**1**	4	—
– institutions	**191**	**15**	212	17
– corporates	**2,396**	**192**	3,036	243
Standardised approach	**8,916**	**714**	8,695	695
– central governments and central banks	**—**	**—**	—	—
– regional governments or local authorities	**2**	**—**	2	—
– public sector entities	**9**	**1**	10	1
– international organisations	**—**	**—**	—	—
– institutions	**263**	**21**	592	47
– corporates	**3,750**	**300**	3,589	287
– retail	**95**	**8**	103	8
– secured by mortgages on immovable property	**589**	**47**	559	45
– exposures in default	**143**	**11**	143	11
– items associated with particularly high risk	**94**	**8**	163	13
– securitisation positions	**822**	**66**	574	46
– claims in the form of collective investments undertakings	**—**	**—**	—	—
– equity[1]	**1,565**	**125**	—	—
– other items	**1,584**	**127**	2,960	236
Total	**36,034**	**2,884**	36,431	2,914

1 *At 30 June 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).*

Specialised lending and equity exposures under the simple riskweighted approach ('CR10') (Unaudited)

		Specialised lending (Slotting approach)					
Regulatory categories	**Remaining maturity**	**On-balance sheet exposure**	**Off-balance sheet exposure**	**Risk weight**	**Exposure value**	**Risk weighted exposure amount**	**Expected loss amount**
		€m	**€m**	**%**	**€m**	**€m**	**€m**
Category 1	Less than 2.5 years	**122**	**1**	**50**	**120**	**59**	**—**
	Equal to or more than 2.5 years	**119**	**15**	**70**	**108**	**75**	**—**
Category 2	Less than 2.5 years	**125**	**22**	**70**	**130**	**91**	**1**
	Equal to or more than 2.5 years	**13**	**56**	**90**	**4**	**3**	**—**
Category 3	Less than 2.5 years	**31**	**—**	**115**	**5**	**5**	**—**
	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	**—**	**1**	**—**	**—**	**—**	**—**
	Equal to or more than 2.5 years	**—**	**—**	**—**	**—**	**—**	**—**
Total at 30 Jun 2021	Less than 2.5 years	**278**	**24**		**255**	**155**	**1**
	Equal to or more than 2.5 years	**132**	**71**		**112**	**78**	**—**

	Equity exposures under the simple risk-weighted approach					
	On-balance sheet exposure	**Off-balance sheet exposure**	**Risk weight**	**Exposure value**	**Risk weighted exposure amount**	**Expected loss amount**
Categories	**€m**	**€m**	**%**	**€m**	**€m**	**€m**
Exchange-traded equity exposures	**—**	**—**	**290**	**—**	**—**	**—**
Private equity exposures	**102**	**90**	**190**	**192**	**364**	**1**
Other equity exposures	**150**	**—**	**370**	**150**	**557**	**4**
Total at 30 Jun 2021	**252**	**90**		**342**	**921**	**5**

		Specialised lending (Slotting approach)					
Regulatory categories	Remaining maturity	On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
		€m	€m	%	€m	€m	€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

	Equity exposures under the simple risk-weighted approach					
	On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
Categories	€m	€m	%	€m	€m	€m
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

Credit quality of forborne exposures ('CQ1') (Unaudited)

	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*
Loans and advances[1]	**1,033**	**276**	***276***	***276***	**(8)**	**(92)**	**64**	***63***
Central banks	—	—	—	—	—	—	—	—
General governments	—	—	—	—	—	—	—	—
Credit institutions	—	—	—	—	—	—	—	—
Other financial	—	—	—	—	—	—	—	—
Non-financial corporations	**1,033**	**194**	***194***	***194***	**(8)**	**(79)**	**22**	***21***
Households	—	**82**	***82***	***82***	—	**(13)**	**42**	***42***
Debt securities	—	—	—	—	—	—	—	—
Loan commitments given	—	—	—	—	—	—	—	—
Total at 30 Jun 2021	**1,033**	**276**	***276***	***276***	**(8)**	**(92)**	**64**	***63***
Loans and advances	155	246	*246*	*246*	(4)	(87)	36	*35*
Central banks	—	—	—	—	—	—	—	—
General governments	—	—	—	—	—	—	—	—
Credit institutions	—	—	—	—	—	—	—	—
Other financial	—	—	—	—	—	—	—	—
Non-financial corporations	155	178	*178*	*178*	(4)	(74)	7	*6*
Households	—	68	*68*	*68*	—	(14)	29	*29*
Debt securities	—	—	—	—	—	—	—	—
Loan commitments given	—	—	—	—	—	—	—	—
Total at 31 Dec 2020	155	246	*246*	*246*	(4)	(87)	36	*35*

1 Performing forborne exposures as at 30 June 2021 have been reported in accordance with revised regulatory criteria adopted in 2021. Prior periods have not been represented.

Collateral obtained by taking possession and execution processes ('CQ7') (Unaudited)

	At 30 Jun 2021[1]		At 31 Dec 2020[1]	
	Collateral obtained by taking possession		Collateral obtained by taking possession	
	Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
	€m	**€m**	€m	€m
Property, plant and equipment ('PP&E')	—	—	—	—
Other than PP&E	—	—	—	—
Residential immovable property	—	—	—	—
Commercial Immovable property	—	—	—	—
Movable property (auto, shipping, etc.)	—	—	—	—
Equity and debt instruments	—	—	—	—
Other	—	—	—	—
Total	—	—	—	—

1 No balances were reportable at 30 June 2021 and 31 December 2020.

Performing and non-performing exposures and related provisions ('CR1') (Unaudited)

	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 impair-ment, accumulated negative changes in fair value due to credit risk and provisions			Accumu-lated partial write-off	On perfor-ming expo-sures	On non-perfor-ming expo-sures
	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*			
	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	€m	€m
Loans and advances	128,308	*120,728*	*7,580*	1,385	*—*	*1,385*	(142)	*(47)*	*(95)*	(655)	*—*	*(655)*	—	55,610	319
Central banks	43,611	*43,569*	*42*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	—	—
General governments	856	*856*	*—*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	68	—
Credit institutions	19,665	*19,654*	*12*	—	*—*	*—*	(1)	*(1)*	*—*	—	*—*	*—*	—	8,075	—
Other financial corporations	13,643	*13,582*	*61*	—	*—*	*—*	(3)	*(2)*	*—*	—	*—*	*—*	—	10,556	—
Non-financial corporations	27,930	*21,150*	*6,780*	991	*—*	*991*	(106)	*(35)*	*(71)*	(510)	*—*	*(510)*	—	15,432	158
Households	22,602	*21,917*	*685*	394	*—*	*394*	(32)	*(8)*	*(24)*	(145)	*—*	*(145)*	—	21,480	161
Debt securities	5,165	*5,115*	*50*	—	*—*	*—*	(1)	*—*	*—*	—	*—*	*—*	—	—	—
Central banks	6	*6*	*—*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	—	—
General governments	2,561	*2,561*	*—*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	—	—
Credit institutions	2,457	*2,407*	*50*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	—	—
Other financial corporations	142	*142*	*—*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	—	—
Non-financial corporations	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	—	—
Off-balance sheet exposures	112,364	*100,539*	*2,952*	195	*—*	*83*	(36)	*(12)*	*(17)*	(24)	*—*	*(9)*	—	2,536	5
Central banks	799	*785*	*—*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	—	—
General governments	316	*316*	*—*	—	*—*	*—*	—	*—*	*—*	—	*—*	*—*	—	—	—
Credit institutions	45,376	*44,408*	*243*	—	*—*	*—*	(8)	*—*	*(6)*	—	*—*	*—*	—	—	—
Other financial corporations	8,805	*8,080*	*44*	—	*—*	*—*	(2)	*(2)*	*—*	—	*—*	*—*	—	259	—
Non-financial corporations	55,445	*45,368*	*2,640*	192	*—*	*80*	(25)	*(10)*	*(10)*	(24)	*—*	*(9)*	—	2,229	5
Households	1,622	*1,581*	*26*	3	*—*	*3*	—	*—*	*—*	—	*—*	*—*	—	48	—
Total at 30 Jun 2021	245,837	*226,382*	*10,582*	1,580	*—*	*1,468*	(179)	*(60)*	*(112)*	(679)	*—*	*(664)*	—	58,146	324

Performing and non-performing exposures and related provisions ('CR1') (continued) (Unaudited)

	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
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
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)*	—	2,598	2
Central banks	28	—	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	468	*468*	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	48,902	*48,208*	*215*	1	—	—	(8)	*(1)*	*(7)*	—	—	—	—	—	—
Other financial corporations	5,463	*4,668*	*45*	—	—	—	(1)	—	—	—	—	—	—	190	—
Non-financial corporations	50,904	*41,240*	*2,678*	224	—	*84*	(20)	*(5)*	*(11)*	(44)	—	*(6)*	—	2,258	2
Households	1,351	*1,302*	*32*	3	—	*3*	(1)	—	—	—	—	—	—	150	—
Total at 31 Dec 2020	230,627	*211,797*	*10,428*	1,622	—	*1,481*	(185)	*(52)*	*(127)*	(713)	—	*(675)*	—	61,357	312

Credit risk exposure – by maturity ('CR1-A') (Unaudited)

	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
	€m	€m	€m	€m	€m
IRB advanced approach	**10,944**	**26,333**	**25,066**	**–**	**62,343**
– central governments and central banks	**347**	**1,124**	**–**	**–**	**1,471**
– institutions	**739**	**365**	**96**	**–**	**1,200**
– corporates	**9,234**	**21,218**	**4,418**	**–**	**34,870**
– *of which: specialised lending*	***113***	***250***	***4***	**–**	***367***
– total retail	**624**	**3,626**	**20,552**	**–**	**24,802**
– *of which:* *secured by mortgages on immovable property SME*	***8***	***89***	***329***	**–**	***426***
secured by mortgages on immovable property non-SME	***95***	***973***	***19,131***	**–**	***20,199***
qualifying revolving retail	**–**	***1***	**–**	**–**	***1***
other SME	***464***	***742***	***314***	**–**	***1,520***
other non-SME	***56***	***1,821***	***777***	**–**	***2,654***
IRB securitisation positions	**–**	**–**	**–**	**–**	**–**
IRB equity	**–**	**–**	**–**	**342**	**342**
IRB foundation approach	**1,129**	**1,756**	**156**	**–**	**3,041**
– central governments and central banks	**–**	**4**	**–**	**–**	**4**
– institutions	**139**	**138**	**34**	**–**	**311**
– corporates	**990**	**1,614**	**122**	**–**	**2,726**
Standardised approach	**49,524**	**7,898**	**5,123**	**626**	**63,171**
– central governments and central banks	**41,951**	**1,290**	**969**	**–**	**44,210**
– regional governments or local authorities	**49**	**277**	**56**	**–**	**382**
– public sector entities	**398**	**1,359**	**2,079**	**–**	**3,836**
– international organisations	**1**	**231**	**63**	**–**	**295**
– institutions	**389**	**50**	**314**	**–**	**753**
– corporates	**3,150**	**1,879**	**836**	**–**	**5,865**
– retail	**23**	**79**	**47**	**–**	**149**
– secured by mortgages on immovable property	**168**	**604**	**616**	**–**	**1,388**
– exposures in default	**31**	**16**	**84**	**–**	**131**
– items associated with particularly high risk	**51**	**1**	**12**	**–**	**64**
– securitisation positions	**1,514**	**1,653**	**47**	**–**	**3,214**
– claims in the form of CIU	**–**	**–**	**–**	**–**	**–**
– equity[1]	**–**	**–**	**–**	**626**	**626**
– other items	**1,799**	**459**	**–**	**–**	**2,258**
At 30 Jun 2021	**61,597**	**35,987**	**30,345**	**968**	**128,897**
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	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	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 30 June 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).*

Credit risk mitigation ('CRM')

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

	Unsecured carrying amount	Secured carrying amount	*of which: secured by collateral*	*secured by financial guarantees*	*secured by credit derivatives*
	€m	€m	€m	€m	€m
Loans and advances	**53,387**	**44,900**	***11,413***	***33,470***	***17***
Debt securities	**5,096**	**88**	***—***	***88***	***—***
Total at 30 Jun 2021	**58,483**	**44,988**	***11,413***	***33,558***	***17***

Standardised approach – Credit risk exposure and CRM effects ('CR4') (Unaudited)

	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	€m
Central governments or central banks	**—**	**20**	**43,935**	**273**	**—**	**—**
Regional government or local authorities	**252**	**100**	**333**	**50**	**2**	**—**
Public sector entities	**3,451**	**1,227**	**3,437**	**399**	**9**	**—**
Multilateral development banks	**—**	**—**	**—**	**—**	**—**	**—**
International organisations	**294**	**—**	**294**	**—**	**—**	**—**
Institutions	**137**	**924**	**168**	**587**	**263**	**35**
Corporates	**4,969**	**3,953**	**4,676**	**1,189**	**3,751**	**64**
Retail	**203**	**121**	**128**	**21**	**95**	**64**
Secured by mortgages on immovable property	**1,343**	**100**	**1,343**	**46**	**589**	**42**
Exposures in default	**138**	**20**	**127**	**4**	**143**	**109**
Exposures associated with particularly high risk	**44**	**57**	**44**	**19**	**94**	**150**
Covered bonds	**—**	**—**	**—**	**—**	**—**	**—**
Institutions and corporates with a short-term credit assessment	**—**	**—**	**—**	**—**	**—**	**—**
Collective investment undertakings	**—**	**—**	**—**	**—**	**—**	**—**
Equity[1]	**626**	**—**	**626**	**—**	**1,565**	**250**
Other items	**2,258**	**—**	**2,258**	**—**	**1,584**	**70**
Total at 30 Jun 2021	**57,175**	**6,522**	**57,369**	**2,588**	**8,095**	**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[1]	—	—	—	—	—	—
Other items	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 30 June 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).*

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

PD scale	On-balance sheet expo-sures	Off-balance sheet exposures pre-CCF	Expo-sure weight-ed average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expect-ed loss amount	Value adjust-ments and provisions
	€m	€m	%	€m	%		%	€m	€m	%	€m	€m
AIRB – Central governments and central banks												
0.00 to <0.15	1,490	3	100	1,468	0.01	9	45	2	119	8	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	0.37	1	45	1	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.50	3	–	100	3	0.88	3	45	4	3	115	–	–
2.50 to <10.00	1	–	–	1	5.85	2	45	3	1	176	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	1,494	4	100	1,471	0.01	15	45	2	123	8	–	–
AIRB – Institutions												
0.00 to <0.15	961	516	55	968	0.04	171	47	2	184	19	–	2
0.15 to <0.25	2	–	20	2	0.22	11	45	2	1	43	–	–
0.25 to <0.50	–	5	90	5	0.37	1	45	1	2	47	–	–
0.50 to <0.75	–	210	90	189	0.63	4	45	1	124	66	1	6
0.75 to <2.50	–	59	59	35	2.09	7	45	1	37	104	–	1
2.50 to <10.00	–	–	–	–	4.20	1	–	1	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	964	791	61	1,199	0.20	195	47	2	348	29	1	9
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	3,543	31,580	18	9,854	0.09	796	31	2	2,135	22	3	5
0.15 to <0.25	2,646	7,165	23	4,021	0.22	365	35	2	1,693	42	4	2
0.25 to <0.50	1,257	3,530	24	2,145	0.37	235	33	3	1,077	50	3	1
0.50 to <0.75	1,797	3,716	22	2,786	0.62	1,061	29	3	1,571	56	6	3
0.75 to <2.50	6,657	7,204	33	8,512	1.36	3,783	23	3	5,054	59	30	16
2.50 to <10.00	4,270	2,536	35	5,127	4.50	2,839	24	3	4,339	85	59	40
10.00 to <100.00	1,319	334	25	1,357	16.20	416	12	3	844	62	27	18
100.00 (Default)	679	55	36	701	100.00	532	29	3	257	37	354	346
Subtotal	22,168	56,121	26	34,504	3.80	10,027	28	3	16,970	49	487	432
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)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–	–	–	–	–	–	–
Wholesale AIRB – Total at 30 Jun 2021	24,626	56,916	27	37,174	3.75	10,237	28	3	17,441	47	488	440

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

PD scale	On-balance sheet expo-sures	Off-balance sheet exposures pre-CCF	Expo-sure weight-ed average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Expo-sure weight-ed average LGD	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expect-ed loss amount	Value adjust-ments and provisions
	€m	€m	%	€m	%		%	€m	€m	%	€m	€m
AIRB – Secured by mortgages on immovable property SME												
0.00 to <0.15	–	–	–	–	0.03	1	28	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	9	–	–	9	0.47	45	27	–	1	16	–	–
0.50 to <0.75	14	–	–	14	0.58	87	26	–	3	18	–	–
0.75 to <2.50	88	1	1	88	1.57	498	26	–	31	35	–	–
2.50 to <10.00	243	5	1	248	4.68	1,395	25	–	160	64	3	2
10.00 to <100.00	25	–	1	25	16.95	175	25	–	26	103	1	1
100.00 (Default)	40	–	18	41	100.00	284	29	–	53	130	19	19
Subtotal	**420**	**6**	**2**	**426**	**13.64**	**2,485**	**26**	**–**	**274**	**64**	**24**	**22**
AIRB – Secured by mortgages on immovable property non-SME												
0.00 to <0.15	5,207	61	64	5,241	0.08	36,837	9	–	1,157	22	–	–
0.15 to <0.25	4,676	65	65	4,714	0.20	28,446	9	–	993	21	1	–
0.25 to <0.50	3,387	68	59	3,424	0.36	18,428	10	–	744	22	1	–
0.50 to <0.75	2,270	81	66	2,322	0.58	12,142	10	–	483	21	1	–
0.75 to <2.50	2,708	173	73	2,832	1.25	16,449	10	–	611	22	4	2
2.50 to <10.00	1,203	193	74	1,345	4.48	7,473	10	–	312	23	6	3
10.00 to <100.00	174	8	74	179	20.35	1,254	10	–	56	31	4	3
100.00 (Default)	142	–	965	143	100.00	1,050	13	–	79	55	39	38
Subtotal	**19,766**	**651**	**72**	**20,201**	**1.56**	**122,079**	**9**	**–**	**4,436**	**22**	**56**	**48**
AIRB – Qualifying revolving retail exposures												
0.00 to <0.15	127	–	–	–	0.07	165,518	100	–	–	–	–	–
0.15 to <0.25	74	–	–	–	0.19	82,946	100	–	–	–	–	–
0.25 to <0.50	34	–	–	–	0.37	37,617	100	–	–	–	–	–
0.50 to <0.75	13	–	–	–	0.53	13,211	100	–	–	–	–	–
0.75 to <2.50	34	–	–	–	1.34	33,189	100	–	–	–	–	–
2.50 to <10.00	13	–	22	–	4.08	12,364	36	–	–	–	–	–
10.00 to <100.00	3	–	–	–	15.32	2,881	100	–	–	–	–	–
100.00 (Default)	1	–	–	–	100.00	529	30	–	–	–	–	–
Subtotal	**298**	**–**	**5**	**1**	**26.40**	**348,255**	**68**	**–**	**–**	**36**	**–**	**2**
AIRB – Other SME												
0.00 to <0.15	–	–	237	–	0.03	16	36	–	–	–	–	–
0.15 to <0.25	–	–	–	–	0.00	–	–	–	–	–	–	–
0.25 to <0.50	15	8	68	21	0.47	675	24	–	3	14	–	–
0.50 to <0.75	34	15	86	50	0.58	1,774	25	–	8	16	–	–
0.75 to <2.50	276	126	80	390	1.61	12,217	22	–	83	21	1	1
2.50 to <10.00	570	386	54	803	5.16	31,569	23	–	225	28	9	4
10.00 to <100.00	101	35	55	123	16.93	3,163	19	–	37	31	4	2
100.00 (Default)	126	17	29	132	100.00	8,552	28	–	27	21	98	97
Subtotal	**1,122**	**587**	**60**	**1,519**	**13.24**	**57,966**	**23**	**–**	**384**	**25**	**112**	**104**
AIRB – Other non-SME												
0.00 to <0.15	336	195	3	792	0.08	255,005	25	–	82	10	–	2
0.15 to <0.25	343	153	4	685	0.20	228,430	25	–	131	19	–	2
0.25 to <0.50	185	77	2	347	0.37	122,724	25	–	106	31	–	3
0.50 to <0.75	95	32	4	168	0.55	66,148	24	–	60	35	–	1
0.75 to <2.50	225	73	14	349	1.26	118,959	24	–	171	49	1	3
2.50 to <10.00	110	29	14	163	4.69	70,913	24	–	111	68	2	5
10.00 to <100.00	47	6	4	62	15.32	37,267	27	–	65	104	3	4
100.00 (Default)	78	3	60	86	100.00	18,453	28	–	107	124	49	48
Subtotal	**1,418**	**568**	**7**	**2,654**	**4.23**	**917,899**	**25**	**–**	**832**	**31**	**55**	**70**
Retail AIRB – Total at 30 Jun 2021	**23,024**	**1,811**	**48**	**24,801**	**6.22**	**1,448,684**	**19**	**–**	**5,926**	**24**	**247**	**245**

IRB approach – Credit risk exposures by exposure class and PD range (‘CR6’) (continued) (Unaudited)

PD scale	On-balance sheet expo-sures	Off-balance sheet exposures pre-CCF	Expo-sure weight-ed average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expect-ed loss amount	Value adjust-ments and provisions
	€m	€m	%	€m	%		%	€m	€m	%	€m	€m
FIRB – Central governments and central banks												
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—	—	—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	8	—	—	—	0.63	1	45	2	—	—	—	—
0.75 to <2.50	2	—	—	—	0.87	1	45	1	—	—	—	—
2.50 to <10.00	—	12	57	4	7.85	2	45	4	8	205	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	10	12	48	5	6.72	4	45	4	9	184	—	—
FIRB – Institutions												
0.00 to <0.15	19	257	26	85	0.11	57	45	2	29	34	—	—
0.15 to <0.25	2	3	32	10	0.22	7	45	2	5	51	—	—
0.25 to <0.50	1	—	—	1	0.37	2	45	1	1	50	—	—
0.50 to <0.75	—	—	—	—	—	1	—	—	—	—	—	—
0.75 to <2.50	92	124	73	182	0.92	7	45	2	152	84	1	—
2.50 to <10.00	—	32	99	32	4.21	3	2	1	2	5	—	—
10.00 to <100.00	1	3	20	1	10.00	5	45	3	2	209	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	114	418	61	312	1.04	82	41	2	191	61	1	—
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	252	888	29	554	0.10	110	45	3	196	35	—	—
0.15 to <0.25	141	382	25	185	0.22	94	35	2	75	41	—	—
0.25 to <0.50	163	172	38	245	0.37	71	28	1	101	41	—	1
0.50 to <0.75	138	370	29	198	0.63	174	46	2	171	86	1	—
0.75 to <2.50	615	1,253	31	918	1.41	612	38	2	901	98	6	3
2.50 to <10.00	173	483	62	452	3.82	304	45	2	707	157	10	3
10.00 to <100.00	122	67	20	103	11.47	39	41	4	245	238	6	2
100.00 (Default)	48	93	28	71	100.00	31	45	1	—	—	32	23
Subtotal	1,652	3,706	35	2,726	4.27	1,435	40	2	2,396	88	55	32
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 30 Jun 2021	1,777	4,137	38	3,042	3.95	1,521	40	2	2,596	85	56	32

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

	At 30 Jun 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	9	9	4	4
Institutions	191	191	212	212
Corporates	2,396	2,396	3,036	3,036
– *of which:* *SMEs*	–	–	–	–
specialised lending	–	–	–	–
Exposures under AIRB				
Central governments and central banks	123	123	121	121
Institutions	348	348	294	294
Corporates	17,310	17,204	17,066	16,933
– *of which:* *SMEs*	–	–	–	–
specialised lending	*234*	*234*	*579*	*579*
Retail	5,926	5,926	5,837	5,837
– *of which:* *retail – SMEs – Secured by immovable property collateral*	*274*	*274*	*300*	*300*
retail – non-SMEs – Secured by immovable property collateral	*4,436*	*4,436*	*4,233*	*4,233*
retail – Qualifying revolving	–	–	–	–
retail – SMEs – Other	*384*	*384*	*441*	*441*
retail – Non-SMEs – Other	*832*	*832*	*863*	*863*
Total (including FIRB exposures and AIRB exposures)	26,302	26,196	26,570	26,437

Analysis of CCR exposure by approach ('CCR1') (Unaudited)

	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)	266	1,329	–	1.4	–	3,979	3,979	973
IMM (for derivatives and SFTs)	–	–	5,740	1.45	–	8,323	8,323	2,106
– *of which:* *securities financing transactions netting sets*	–	–	–		–	–	–	–
derivatives and long settlement transactions netting sets	–	–	*5,740*	*1.45*	–	*8,323*	*8,323*	*2,106*
from contractual cross-product netting sets	–	–	–		–	–	–	–
Financial collateral simple method (for SFTs)	–	–	–		–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–		–	4,163	4,163	225
VaR for SFTs	–	–	–		–	–	–	
Total at 30 Jun 2021	266	1,329	5,740			16,465	16,465	3,304

Transactions subject to own funds requirements for CVA risk ('CCR2') (Unaudited)

		At 30 Jun 2021		At 31 Dec 2020	
		Exposure value	RWAs	Exposure value	RWAs
		€m	€m	€m	€m
1	Total transactions subject to the Advanced method	4,840	380	1,601	307
2	(i) VaR component (including the 3× multiplier)		67		52
3	(ii) stressed VaR component (including the 3× multiplier)		313		255
4	Transactions subject to the Standardised method	1,272	433	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]	6,112	812	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).*

Composition of collateral for CCR exposures ('CCR5') (Unaudited)

		Collateral used in derivative transactions				Collateral used in SFTs			
		Fair value of collateral		Fair value of posted collateral		Fair value of collateral		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	—	15,939	—	13,021	—	82,289	—	90,422
2	Cash – other currencies	—	4,280	—	2,115	—	1,124	—	4,620
3	Domestic sovereign debt	5	194	—	778	—	33,980	—	33,722
4	Other sovereign debt	128	1,701	182	473	—	58,058	—	47,942
5	Government agency debt	—	—	—	—	—	—	—	—
6	Corporate bonds	—	11	—	—	—	1,056	—	1,329
7	Equity securities	—	—	—	—	—	30	—	363
8	Other collateral	—	482	—	—	—	20	—	4
9	**Total at 30 Jun 2021**	133	22,608	182	16,387	—	176,557	—	178,403

Market risk under the standardised approach ('MR1') (Unaudited)

		At 30 Jun 2021		At 31 Dec 2020	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
	Outright products				
1	Interest rate risk (general and specific)	151	12	146	12
2	Equity risk (general and specific)	—	—	—	—
3	Foreign exchange risk	99	8	100	8
4	Commodity risk	—	—	—	—
	Options	—	—		
5	Simplified approach	—	—	—	—
6	Delta-plus method	56	4	93	7
7	Scenario approach	—	—	—	—
8	Securitisation (specific risk)	—	—	—	—
9	**Total**	306	24	339	27

Market risk under the Internal Model Approach ('IMA') ('MR2-A') (Unaudited)

		At 30 Jun 2021		At 31 Dec 2020	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
1	**VaR (higher of values a and b)**	608	49	444	35
(a)	Previous day's VaR ('VaRt-1')	102	8	97	8
(b)	Multiplication factor (mc) x average of previous 60 working days ('VaRavg')	608	49	444	35
2	**Stressed VaR (higher of values a and b)**	1,457	117	964	77
(a)	Latest available SVaR ('SVaRt-1')	254	20	329	26
(b)	Multiplication factor (ms) x average of previous 60 working days ('sVaRavg')	1,457	117	964	77
3	**Incremental risk charge (higher of values a and b)**	671	54	350	28
(a)	Most recent IRC value	393	31	278	22
(b)	Average IRC value	671	54	350	28
5	**Other**[1]	1,227	98	566	45
6	**Total**	3,963	318	2,324	186

1 *In June 2021, Other includes a capital buffer under VAR Completeness framework.*

Operational risk RWAs (Unaudited)

	At 30 Jun 2021		At 31 Dec 2020	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
Own funds requirement for operational risk	3,283	263	3,283	263

Liquidity and funding risks

Liquidity risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable (and therefore used to fund assets) proves not to be sustainable over time.

The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity Coverage Ratio ('LCR')

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 144 per cent as at 30 June 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.

Level and components of liquidity coverage ratio ('LIQ1') (Unaudited)

	Quarter ended							
	30 Jun 2021		31 Mar 2021		31 Dec 2020		30 Sep 2020	
	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)		**46,367**		45,161		42,259		39,865
Cash – Outflows								
Retail deposits and small business funding	**25,202**	**2,028**	24,952	2,008	24,501	1,971	24,014	1,929
– *of which:*								
stable deposits	***15,423***	***771***	*15,270*	*763*	*14,984*	*749*	*14,697*	*735*
less stable deposits	***9,779***	***1,257***	*9,682*	*1,244*	*9,517*	*1,222*	*9,316*	*1,195*
Unsecured wholesale funding	**34,661**	**15,484**	33,943	15,416	33,709	15,701	33,042	16,084
– Operational deposits (all counterparties) and deposits in networks of cooperative banks	**15,807**	**3,911**	15,623	3,862	13,816	3,274	10,695	2,277
– Non-operational deposits (all counterparties)	**18,205**	**10,924**	17,435	10,669	19,014	11,549	21,429	12,890
– Unsecured debt	**649**	**649**	885	885	878	878	918	918
Secured wholesale funding		**214**		246		477		1,048
Additional requirements	**52,046**	**10,184**	48,733	9,128	45,097	7,942	33,176	6,080
– Outflows related to derivative exposures and other collateral requirements	**2,210**	**2,210**	2,229	2,229	2,128	2,128	1,987	1,987
– Outflows related to loss of funding on debt products	**—**	**—**	—	—	—	—	—	—
– Credit and liquidity facilities	**49,836**	**7,974**	46,503	6,899	42,969	5,814	31,188	4,093
Other contractual funding obligations	**7,558**	**1,312**	7,370	1,240	7,865	823	9,181	795
Other contingent funding obligations	**14,679**	**1,008**	14,451	1,019	14,140	1,031	13,743	1,034
Total cash outflows		**30,230**		29,056		27,946		26,970
Cash – Inflows								
Secured lending transactions (including reverse repos)	**49,736**	**210**	52,276	216	55,916	571	61,442	1,181
Inflows from fully performing exposures	**3,646**	**2,726**	4,007	3,066	4,249	3,289	4,559	3,666
Other cash inflows	**10,004**	**3,525**	9,659	3,387	9,202	2,933	8,857	2,742
(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	**63,385**	**6,461**	65,942	6,669	69,367	6,793	74,857	7,589
Fully exempt inflows	**—**	**—**	—	—	—	—	—	—
Inflows subject to 90% cap	**—**	**—**	—	—	—	—	—	—
Inflows subject to 75% cap	**59,961**	**6,488**	62,613	6,695	66,166	6,811	51,268	5,245
Total adjusted value	**—**	**—**	—	—	—	—	—	—
Liquidity buffer	**—**	**46,367**	—	45,161	—	42,259	—	39,865
Total net cash outflows	**—**	**30,940**	—	29,656	—	27,405	—	26,203
Liquidity coverage ratio %[1]	**—**	**150**	—	152	—	154	—	151

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 ('NSFR')

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.

From June 2021 onwards, HSBC Continental Europe will disclose NSFR according to the CRR II regulation.

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

HSBC Continental Europe's NSFR was 137 per cent at 30 June 2021.

Net Stable Funding Ratio ('LIQ2') (Unaudited)

	Unweighted value by residual maturity				
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	€m	€m	€m	€m	€m
At 30 Jun 2021					
Available stable funding ('ASF') Items					
Capital items and instruments		–	–	9,375	9,375
Own funds		–	–	9,375	9,375
Other capital instruments		–	–	–	–
Retail deposits		25,713	–	–	23,638
Stable deposits		15,673	–	–	14,890
Less stable deposits		10,039	–	–	8,748
Wholesale funding		46,306	470	12,291	33,215
Operational deposits		14,972	–	–	7,486
Other wholesale funding		31,333	283	12,291	25,729
Interdependent liabilities		–	–	–	–
Other liabilities		–	–	–	–
NSFR derivative liabilities	–				–
All other liabilities and capital instruments not included in the above categories		42,172	1,639	15,780	16,599
Total available stable funding ('ASF')					82,827
Required stable funding ('RSF') Items					
Total high-quality liquid assets ('HQLA')					417
Assets encumbered for more than 12m in cover pool		–	–	23,473	22,966
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		42,293	–	–	–
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		19,670	30	397	417
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		7,459	3,417	20,855	22,649
– *of which: with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*3*	*6*	*3,159*	–
Performing residential mortgages		786	840	19,158	–
– *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		17,947	3,459	5,147	7,368
Interdependent assets		–	–	–	–
Other assets:		–	–	–	–
Physical traded commodities				–	–
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		566	–	–	482
NSFR derivative assets		696	–	–	696
NSFR derivative liabilities before deduction of variation margin posted		9,498	–	–	475
All other assets not included in the above categories		8,734	–	2,638	2,638
Off-balance sheet items		59,240	–	–	2,962
Total RSF					60,653
Net Stable Funding Ratio (%)					137

Interest-rate risks in the banking book

Overview

Interest rate risk in the banking book ('IRRBB') is the risk of variability in results caused by mismatches in interest rates, maturities and nature between assets and liabilities in the banking book. This risk arises in non-trading portfolios.

Governance

The Asset, Liability and Capital Management ('ALCM') function is responsible for managing non-traded interest rate risk, maintaining the transfer pricing framework and informing ALCO of the overall banking book interest rate risk exposure. Banking book interest rate positions may be transferred to be managed by the Markets Treasury business, previously known as Balance Sheet Management, within the market risk limits approved by the bank's Risk Management Meeting.

Effective governance of Markets Treasury is supported by the dual reporting lines it has to the Head of Markets and Securities Services and to the Regional Treasurer, with Risk acting as a second line of defence. Markets Treasury will only receive non-trading assets and liabilities as long as they can economically hedge the risk they receive. Hedging is generally managed through vanilla interest rate swaps. Any interest rate risk which Markets Treasury cannot economically hedge is not transferred and remains within ALCO books in the Corporate Centre.

Measurement of interest rate risk in the Banking Book

Interest rates risk in the banking book is measured mainly through nominal gap, sensitivity of interest rate income and sensitivity of economic value of equity.

The interest rate risk measurement indicators are consistently presented to the ALCO and serve as the basis for operating risk management decisions.

In a persisting low and negative rates environment, HSBC Continental Europe monitors the evolution of prepayment and renegotiation for home loans to individuals. The bank is modelling the expected customer behaviour considering best-in-class rates proposed by competitors, expected market rates and other behavioural assumptions. Analysis of model output and management judgement, lead to a periodic reassessment of the accurate level of management prepayment rates.

The historically low rates environment, should it last, would continue to weigh on the banking book’s Net Interest Margin.

Market risks

Market risks in the first half of 2021

The vaccination campaigns against Covid-19 have been deployed in the first half of 2021and the external health situation did improve in most western counties. Though the Delta variant, spreading first widely in India has caused a new outbreak in the United Kingdom leading to caution in the months ahead.

The theme of inflation came back abruptly with concerns that the rise could be material.

Consumer prices jumped 5 per cent in May 2021 in the United States whilst rising to 2 per cent – just above the European Central Bank's target in the Eurozone.

For the time being the increase is considered as temporary by central banks. The European Central Bank has focused its statements on the necessity to back economic recovery and has maintained its accommodating monetary policy. The US Federal Reserve was on the same tone during the first half of 2021 but some doubts on a potential interest rate rise as soon as the end of 2022 had emerged at the end of the first half of 2021.

Euro and USD swap rates curves increased during the first half of 2021 with regards to the inflation and growth outlook.

Stock markets continued to be euphoric, reaching new heights.

Value at Risk (‘VaR’)

HSBC Continental Europe has been granted a temporary tolerance to use new internal model approaches for own fund requirements, which is facilitating the development of equity asset class activities.

Trading portfolios

Value at Risk of the trading portfolio

Trading VaR predominantly resides within Market Securities Services. The Total VaR has been broadly in line with strict control of RWA consumption targets.

Total trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2021	**0.45**	**3.05**	**0.44**	**0.89**	**(1.75)**	**3.08**
Average	**0.31**	**3.71**	**0.07**	**0.67**	**(0.97)**	**3.79**
Maximum	**0.51**	**11.04**	**0.49**	**1.25**	**(1.98)**	**10.58**
Balance at 30 Jun 2020	0.48	2.86	—	0.41	(0.78)	2.97
Average	0.19	3.63	—	0.67	(0.81)	3.68
Maximum	0.48	5.55	—	1.37	(1.87)	5.75

Non-trading portfolios

Value at Risk of the non-trading portfolio

Non-trading VaR is driven mainly by the High Liquid Asset Buffer exposures.

Total non-trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2021	**—**	**3.64**	**—**	**2.37**	**(1.84)**	**4.17**
Average	**—**	**3.36**	**—**	**4.78**	**(1.46)**	**6.68**
Maximum	**—**	**4.35**	**—**	**6.91**	**(3.42)**	**8.86**
Balance at 30 Jun 2020	—	3.12	—	4.99	(2.57)	5.55
Average	0.01	3.17	—	3.49	(2.08)	4.58
Maximum	0.04	4.78	—	5.19	(3.26)	6.47

Condensed financial statements

Consolidated income statement

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2021	2020	2020
	Notes	**€m**	€m	€m
Net interest income		**480**	534	519
– interest income		**829**	930	931
– interest expense		**(349)**	(396)	(412)
Net fee income	*3*	**457**	437	421
– fee income		**642**	561	543
– fee expense		**(185)**	(124)	(122)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		**90**	62	10
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss		**787**	(662)	823
Changes in fair value of designated debt and related derivatives		**(6)**	(2)	(2)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss		**19**	30	57
Gains less losses from financial investments		**17**	7	7
Net insurance premium income		**875**	661	706
Other operating income		**217**	(86)	170
Total operating income		**2,936**	981	2,711
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(1,640)**	(51)	(1,520)
Net operating income before change in expected credit losses and other credit impairment charges		**1,296**	930	1,191
Change in expected credit losses and other credit impairment charges		**1**	(229)	(60)
Net operating income		**1,297**	701	1,131
employee compensation and benefits		**(488)**	(494)	(751)
general and administrative expenses		**(578)**	(484)	(399)
depreciation and impairment of property, plant and equipment and right of use assets		**(42)**	(70)	(259)
amortisation and impairment of intangible assets and goodwill impairment		**(3)**	(303)	(17)
Total operating expenses		**(1,111)**	(1,351)	(1,426)
Operating profit/(loss)		**186**	(650)	(295)
Share of profit/(loss) in associates and joint ventures		**1**	—	—
Profit/(loss) before tax		**187**	(650)	(295)
Tax expense		**(34)**	150	(230)
Profit/(loss) for the period		**153**	(500)	(525)
Attributable to:				
– shareholders of the parent company		**153**	(499)	(523)
– non-controlling interests		**—**	(1)	(2)

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	€m	€m	€m
Profit/(loss) for the period	**153**	(500)	(525)
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value through other comprehensive income:	**(29)**	3	29
– fair value gains/(losses)	**(20)**	3	44
– fair value losses/(gains) transferred to the income statement on disposal	**(19)**	(5)	(1)
– expected credit losses recognised in income statement	**(1)**	5	(3)
– income taxes	**11**	—	(11)
Cash flow hedges:	**(23)**	27	8
– fair value gains/(losses)	**(39)**	31	(1)
– fair value gains/(losses) reclassified to the income statement	**6**	9	8
– income taxes	**10**	(13)	1
Exchange differences and other	**19**	(13)	(7)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability:	**4**	2	(8)
– before income taxes	**5**	3	(7)
– income taxes	**(1)**	(1)	(1)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:	**(7)**	192	(197)
– before income taxes	**(9)**	287	(291)
– income taxes	**2**	(95)	94
Equity instruments designated at fair value through other comprehensive income:	**—**	—	(1)
– fair value gains/(losses)	**—**	—	(1)
– income taxes	**—**	—	—
Other comprehensive income/(expense) for the period, net of tax	**(36)**	211	(176)
Total comprehensive income/(expense) for the period	**117**	(289)	(701)
Attributable to:			
– shareholders of the parent company	**117**	(288)	(699)
– non-controlling interests	**—**	(1)	(2)

Consolidated balance sheet

		At	
		30 Jun	31 Dec
		2021	2020
	Notes	**€m**	€m
Assets			
Cash and balances at central banks		**40,460**	29,508
Items in the course of collection from other banks		**682**	224
Trading assets		**15,593**	12,954
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**12,810**	11,648
Derivatives		**41,744**	56,475
Loans and advances to banks		**6,588**	6,781
Loans and advances to customers		**54,870**	56,225
Reverse repurchase agreements – non-trading		**17,481**	21,522
Financial investments		**16,360**	19,167
Asset held for sale		**3**	3
Prepayments, accrued income and other assets		**23,284**	21,735
Current tax assets		**99**	146
Interests in associates and joint ventures		**1**	1
Goodwill and intangible assets	*4, 7*	**748**	579
Deferred tax assets		**178**	131
Total assets		**230,901**	237,099
Liabilities			
Deposits by banks		**20,271**	17,204
Customer accounts		**65,334**	61,393
Repurchase agreements – non-trading		**6,456**	10,984
Items in the course of transmission to other banks		**196**	198
Trading liabilities		**19,908**	17,828
Financial liabilities designated at fair value		**16,239**	16,892
Derivatives		**40,232**	55,714
Debt securities in issue		**4,043**	3,605
Accruals, deferred income and other liabilities		**24,688**	20,117
Current tax liabilities		**87**	73
Liabilities under insurance contracts		**23,529**	23,228
Provisions	*8*	**319**	397
Deferred tax liabilities		**170**	131
Subordinated liabilities		**1,876**	1,876
Total liabilities		**223,348**	229,640
Equity			
Called up share capital		**491**	491
Share premium account		**2,137**	2,137
Other equity instruments	*2*	**750**	750
Other reserves		**1,658**	1,688
Retained earnings		**2,492**	2,368
Total Shareholders' equity		**7,528**	7,434
Non-controlling interests		**25**	25
Total equity		**7,553**	7,459
Total liabilities and equity		**230,901**	237,099

Consolidated statement of cash flows

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	€m	€m	€m
Profit/(loss) before tax	**187**	(650)	(295)
Adjustments for non-cash items	**(258)**	859	840
– depreciation, amortisation and impairment of property plant and equipment, right of use and intangibles[1]	**45**	373	276
– net gain from investing activities	**(17)**	(13)	(2)
– share of profits in associates and joint ventures	**(1)**	—	—
– change in expected credit losses gross of recoveries and other credit impairment changes	**2**	228	59
– provisions including pensions	**(2)**	5	249
– share-based payment expense	**8**	6	7
– other non-cash items included in profit before tax	**(170)**	129	(1)
– elimination of exchange differences	**(123)**	131	252
Changes in operating assets and liabilities	**6,849**	11,321	(12,744)
– change in net trading securities and derivatives	**(1,348)**	(3,248)	(428)
– change in loans and advances to banks and customers	**1,490**	(2,626)	3,738
– change in reverse repurchase agreements – non-trading	**2,425**	7,602	5,697
– change in financial assets designated at fair value and otherwise mandatorily measured at fair value	**(1,162)**	967	(658)
– change in other assets	**4,398**	(3,003)	(4,276)
– change in deposits by banks and customer accounts	**7,008**	16,832	(7,898)
– change in repurchase agreements – non-trading	**(4,528)**	(8,331)	(898)
– change in debt securities in issue	**438**	(1,581)	(4,596)
– change in financial liabilities designated at fair value	**(662)**	(397)	(1,668)
– change in other liabilities	**(1,185)**	5,130	(1,710)
– tax paid	**(25)**	(24)	(47)
Net cash from operating activities	**6,778**	11,530	(12,199)
Purchase of financial investments	**(1,595)**	(4,749)	(1,037)
Proceeds from the sale and maturity of financial investments	**4,115**	2,135	2,067
Net cash flow from the purchase and sale of property, plant and equipment	**(27)**	(24)	(23)
Net investment in intangible assets	**(2)**	(33)	(5)
Net cash flow on disposal/acquisition of subsidiaries, businesses, associates and joint ventures	**—**	—	—
Net cash from investing activities	**2,491**	(2,671)	1,002
Issue of ordinary share capital and other equity instruments	**—**	—	—
Subordinated loan capital issued	**—**	500	—
Dividends paid to shareholders of the parent company	**(15)**	(15)	(15)
Dividends paid to non-controlling interests	**—**	—	—
Net cash from financing activities	**(15)**	485	(15)
Net increase/(decrease) in cash and cash equivalents	**9,254**	9,344	(11,212)
Cash and cash equivalents at beginning of the period	**47,567**	49,616	58,827
Exchange differences in respect of cash and cash equivalents	**82**	(133)	(48)
Cash and cash equivalents at the end of the period	**56,903**	58,827	47,567
Cash and cash equivalents comprise of:			
– cash and balances at central banks	**40,460**	36,032	29,508
– items in the course of collection from other banks	**682**	642	224
– loans and advances to banks of one month or less	**3,670**	3,183	3,711
– reverse repurchase agreement with banks of one month or less	**7,621**	8,642	9,238
– treasury bills, other bills and certificates of deposit less than three months	**330**	2,236	299
– net settlement accounts and cash collateral	**4,336**	8,333	4,785
– less: items in the course of transmission to other banks	**(196)**	(241)	(198)
Cash and cash equivalents at the end of the period	**56,903**	58,827	47,567

1 *Included in 2020 are the impacts of impairments and write-offs of non-financial assets including goodwill (EUR 284 million in the six months to 30 June 2020 and EUR 220 million in the six months to 31 December 2020).*

Consolidated statement of changes in equity

	Called-up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI Reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2021	**2,628**	**750**	**2,368**	**78**	**69**	**(47)**	**1,588**	**7,434**	**25**	**7,459**
Profit/(loss) for the period	—	—	153	—	—	—	—	153	—	153
Other comprehensive income (net of tax)	—	—	(3)	(29)	(23)	19	—	(36)	—	(36)
– debt instruments at fair value through other comprehensive income	—	—	—	(29)	—	—	—	(29)	—	(29)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	(23)	—	—	(23)	—	(23)
– re-measurement of defined benefit asset/ liability	—	—	4	—	—	—	—	4	—	4
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(7)	—	—	—	—	(7)	—	(7)
– exchange differences	—	—	—	—	—	19	—	19	—	19
Total comprehensive income for the period	—	—	150	(29)	(23)	19	—	117	—	117
Capital securities issued during the period	—	—	—	—	—	—	—	—	—	—
Dividends to shareholders[2]	—	—	(15)	—	—	—	—	(15)	—	(15)
Net impact of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	—
Other movements	—	—	(11)	—	—	—	3	(8)	—	(8)
Total Others	—	—	(26)	—	—	—	3	(23)	—	(23)
At 30 Jun 2021	**2,628**	**750**	**2,492**	**49**	**46**	**(28)**	**1,591**	**7,528**	**25**	**7,553**

1 At 30 June 2021, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value recognised in reserves was a loss of EUR (69) million.
2 Dividends are coupons paid on additional tier 1 instruments.

Consolidated statement of changes in equity (continued)

	Called-up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI Reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2020	2,628	750	3,424	47	34	(27)	1,587	8,443	28	8,471
Profit/(loss) for the period	—	—	(499)	—	—	—	—	(499)	(1)	(500)
Other comprehensive income (net of tax)	—	—	194	3	27	(13)	—	211	—	211
– debt instruments at fair value through other comprehensive income	—	—	—	3	—	—	—	3	—	3
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	27	—	—	27	—	27
– re-measurement of defined benefit asset/liability	—	—	2	—	—	—	—	2	—	2
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	192	—	—	—	—	192	—	192
– exchange differences	—	—	—	—	—	(13)	—	(13)	—	(13)
Total comprehensive income for the period	—	—	(305)	3	27	(13)	—	(288)	(1)	(289)
Capital securities issued during the period	—	—	—	—	—	—	—	—	—	—
Dividends to shareholders[2]	—	—	(15)	—	—	—	—	(15)	—	(15)
Net impact of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	—
Change in business combination and other movements	—	—	6	—	—	—	—	6	—	6
Total Others	—	—	(9)	—	—	—	—	(9)	—	(9)
At 30 Jun 2020	2,628	750	3,110	50	61	(40)	1,587	8,146	27	8,173

1 At 30 June 2020, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value recognised in reserves was a gain of EUR 135 million.
2 Dividends are coupons paid on additional tier 1 instruments.

Consolidated statement of changes in equity (continued)

	Called-up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI Reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger and other reserves	Total share-holders' equity	Non controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jul 2020	2,628	750	3,110	50	61	(40)	1,587	8,146	27	8,173
Profit/(loss) for the period	—	—	(523)	—	—	—	—	(523)	(2)	(525)
Other comprehensive income (net of tax)	—	—	(205)	28	8	(7)	—	(176)	—	(176)
– debt instruments at fair value through other comprehensive income	—	—	—	29	—	—	—	29	—	29
– equity instruments designated at fair value through other comprehensive income	—	—	—	(1)	—	—	—	(1)	—	(1)
– cash flow hedges	—	—	—	—	8	—	—	8	—	8
– re-measurement of defined benefit asset/liability	—	—	(8)	—	—	—	—	(8)	—	(8)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(197)	—	—	—	—	(197)	—	(197)
– exchange differences	—	—	—	—	—	(7)	—	(7)	—	(7)
Total comprehensive income for the period	—	—	(728)	28	8	(7)	—	(699)	(2)	(701)
Capital securities issued during the period	—	—	—	—	—	—	—	—	—	—
Dividends to shareholders[2]	—	—	(15)	—	—	—	—	(15)	—	(15)
Net impact of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	—
Change in business combination and other movements	—	—	1	—	—	—	1	2	—	2
Total Others	—	—	(14)	—	—	—	1	(13)	—	(13)
At 31 Dec 2020	2,628	750	2,368	78	69	(47)	1,588	7,434	25	7,459

1 *At 31 December 2020, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value recognised in reserves was a loss of EUR (62) million.*

2 *Dividends are coupons paid on additional tier 1 instruments.*

Notes on the condensed financial statements

1 Basis of preparation and significant accounting policies

HSBC Continental Europe is an entity domiciled in France. The HSBC Continental Europe condensed consolidated financial statements for the half-year up to 30 June 2021 contain the financial statements of HSBC Continental Europe, its subsidiaries and interests in jointly controlled entities and affiliates.

The consolidated financial statements of HSBC Continental Europe for the financial year 2020 are available upon request from the HSBC Continental Europe registered office at 38, avenue Kléber – 75116 Paris or on the website www.hsbc.fr

These interim consolidated financial statements were approved by the Board of Directors on 30 July 2021.

(a) Compliance with International Financial Reporting Standards ('IFRS')

The interim consolidated financial statements of HSBC Continental Europe have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. They do not include all the information disclosed in the annual financial statements and should be read in conjunction with the HSBC Continental Europe *Universal Registration Document 2020.*

At 30 June 2021, there were no unendorsed standards effective for the half year to 30 June 2021 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC Continental Europe.

Standards applied during the half-year to 30 June 2021

There were no new standards or amendments to standards that had an effect on these interim condensed consolidated financial statements.

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of amortised cost and FVOCI financial assets, goodwill impairment, the valuation of financial instruments, deferred tax assets and provisions for liabilities. There were no changes in the current period to the critical accounting estimates and judgements applied in 2020, which are stated on pages 172 to 182 of the *Universal Registration Document 2020*.

(c) Composition of HSBC Continental Europe

There were no material changes in the composition of HSBC Continental Europe in the half-year to 30 June 2021. See Note 12.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2021. It has not been endorsed for use in the EU. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. HSBC Continental Europe is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Therefore, the likely impact of its implementation remains uncertain. See Note 1.1(b) on page 171 of the *Universal Registration Document 2020*.

(e) Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that HSBC Continental Europe has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the global Covid-19 pandemic has had on HSBC's operations, as well as considering potential impacts from other Top & Emerging Risks, and those arising from the strategic review of the retail business in France.

(f) Accounting policies

The accounting policies adopted by HSBC Continental Europe for the interim consolidated financial statements are consistent with those described in Note 1 on the condensed financial statements of the *Universal Registration Document 2020*.

Recent developments of the IFRS Interpretations Committee ('IFRIC')

In April 2021, the IFRIC issued a final agenda decision clarifying the period of service over which employee benefits are attributed under IAS19 for defined benefit plans. This decision may impact certain retirement indemnities for which analysis is in progress. As at 30 June 2021, HSBC Continental Europe recognised EUR 125 million in retirement indemnity provisions, largely not expected to be impacted by the IFRIC agenda decision (as at 30 June 2021, no impacts had been recognised).

(g) Significant events during the first half-year

Potential sale of the retail banking business in France

Further to the strategic review, HSBC Continental Europe signed on 18 June 2021 a Memorandum of Understanding with Promontoria MMB SAS ('My Money Group'), its subsidiary *Banque des Caraïbes SA* and My Money Bank, regarding the potential sale of HSBC Continental Europe's retail banking business in France.

The potential sale includes: HSBC Continental Europe's French retail banking business; the Crédit Commercial de France ('CCF') brand; and, subject to the satisfaction of relevant conditions, HSBC Continental Europe's 100 per cent ownership interest in HSBC SFH (France) and its 3 per cent ownership interest in Crédit Logement. The sale would generate an estimated pre-tax loss including related transaction costs for HSBC Continental Europe of EUR 1.9 billion. There would be no immediate tax benefit recognised in respect of the sale loss nor impairment. The vast majority of the estimated loss for the write down of the disposal group to fair value less costs to sell will be recognised when it is classified as held for sale in accordance with IFRS 5, which is currently anticipated to be in 2022. Subsequently, the disposal group classified as held for sale will be re-measured at the lower of carrying amount and fair value less costs to sell at each reporting period. Any remaining gain or loss not previously recognised shall be recognised at the date of derecognition which is currently anticipated to be in the first half of 2023.

As at 30 June 2021, the value of the total assets of the business to be sold was EUR 23.8 billion, including EUR 21.6 billion of customer loan balances and the value of customer accounts was EUR 19.8 billion. See page 5 'HSBC strategy implemented in Continental Europe'.

Funding through Targeted Long-Term Refinancing Operation ('TLTROs')

In March 2021, HSBC Continental Europe borrowed an additional EUR 1.06 billion in TLTRO III funding in addition to the existing EUR 10.6 billion borrowed in June 2020.

New issuances

In June 2021, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturities of 7 and 8 years for a total notional amount of EUR 800 million subscribed by HSBC Bank plc, recognised as debt securities in issue.

(h) Presentation of information

Information related to results by business segments ('IFRS 8') are disclosed in the management report on pages 11 to 17. Disclosures concerning the nature and extent of risks relating to financial instruments are in risk section on pages 18 to 38. These form an integral part of these condensed financial statements.

2 Dividends

There was no interim dividend distribution for the 2021 financial year during the first half of 2021.

The Combined General Meeting held on 11 March 2021 approved the recommendation of the Board of Directors, on 23 February 2021, not to distribute a dividend in respect of the year 2020.

Earnings and dividends per share

	Six months ended		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	€ per share	€ per share	€ per share
Basic earnings per share	**1.56**	(5.08)	(5.32)
Diluted earnings per share	**1.56**	(5.08)	(5.32)
Dividends per share[1]	**—**	—	—

1 *Coupons paid on other equity instruments are not included in the calculation of the dividends per share.*

Basic earnings per ordinary share were calculated by dividing the profit/(loss) attributable to ordinary shareholders of the parent company of EUR 153 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 98,231,196 (first half of 2020: loss of EUR (499) million and 98,231,196 weighted average number of shares; second half of 2020: loss of EUR (523) million and 98,231,196 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive effects of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 98,231,196 (first half of 2020: 98,231,196 shares; second half of 2020: 98,231,196 shares).

At 30 June 2021, no potentially dilutive ordinary share has been issued.

Other equity instruments

Total coupons on capital instruments classified as equity[1]

		Six months ended		
		30 Jun 2021	30 Jun 2020	31 Dec 2020
	First call date	**€m**	€m	€m
Perpetual subordinated capital securities				
– EUR 200 million issued at 4.56%	May 2022	**5**	5	4
– EUR 300 million issued at 4.00%	March 2023	**6**	6	6
– EUR 250 million issued at 3.46%	December 2024	**4**	4	5
Total		**15**	15	15

1 *Discretionary coupons are paid semi-annually on the perpetual subordinated capital instruments.*

3 Net fee income

Net fee income

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	€m	€m	€m
Account services	**70**	69	70
Funds under management	**102**	88	90
Cards	**16**	18	16
Credit facilities	**73**	65	71
Broking income	**17**	6	4
Unit trusts	**3**	2	2
Imports/exports	**8**	8	7
Remittances	**25**	22	24
Underwriting	**96**	55	33
Global custody	**19**	17	17
Insurance agency commission	**9**	10	9
Other[1]	**204**	201	200
Fee income	**642**	561	543
Less: fee expense	**(185)**	(124)	(122)
Net Fee income	**457**	437	421
Global business			
Wealth and Personal Banking	**136**	129	130
Commercial Banking	**118**	116	112
Global Banking and Markets	**203**	192	179
Corporate Centre	**—**	—	—

1 *Other includes intercompany fees and third party fees not included in other categories.*

4 Present value of in-force insurance business ('PVIF')

HSBC Continental Europe's life insurance business reported through its subsidiary HSBC Assurances Vie, is accounted for using the embedded value approach which, *inter alia,* provides a comprehensive risk and valuation framework. The Present Value of In-Force ('PVIF') business asset represents the present value of the shareholders' interest in the profits expected to emerge from the book of in-force policies.

The calculation of the PVIF is based upon assumptions that take into account risk and uncertainty. To project these cash flows, a variety of assumptions regarding future experience is made by each insurance operation, which reflects local market conditions and management's judgement of local future trends.

Movements in PVIF

	Movement of first semester 2021	Movement on full year 2020
	€m	€m
At 1 January	**490**	613
Change in PVIF of long-term insurance business	**171**	(123)
– moving forward	**(30)**	(65)
– value of new business	**18**	24
– assumption changes and others	**7**	36
– market impact	**143**	(134)
– experience variances	**33**	16
At the end of the period	**661**	490

The PVIF increased from EUR 490 million as of 31 December 2020 to EUR 661 million as of 30 June 2021. The increase of EUR 171 million is mainly due to market impact, favourable experience variances notably owing to a change in the profile of regular premiums and other recurring effects.

(a) Key assumptions used in the computation of PVIF for main life insurance operations

Economic assumptions are set in a way that is consistent with observable market values. The valuation of PVIF is sensitive to observed market movements and the impact of such changes is included in the sensitivities presented below.

Key assumptions modifications impacts over PVIF[1]

	At	
	30 Jun	31 Dec
	2021	2020
	%	%
Weighted average risk free rate	**0.65**	0.34
Weighted average risk discount rate	**1.53**	1.34
Expenses inflation	**1.60**	1.60

1 *As at 30 June 2021, market value future profits' discounted rate used for the PVIF is 1.53 per cent, to which a risk margin of EUR 185.4 million was added. In 2020, market value future profits' discounted rate used for the PVIF was of 1.34 per cent, to which a risk margin of EUR 175.3 million was added.*

(b) Sensitivity to changes in economic assumptions

The following table shows the effects of the risk-free rate and discount rate movements on the value of PVIF for HSBC Assurances Vie.

	At	
	30 Jun	31 Dec
	2021[1]	2020[1]
	€m	€m
+100 basis points shift in risk-free rate	**107**	148
- 100 basis points shift in risk-free rate	**(226)**	(288)
+100 basis points shift in risk-discount rate	**(6)**	8
- 100 basis points shift in risk-discount rate	**5**	(11)

1 *Impacts on profits are shown before tax.*

Due to certain contractual characteristics, the sensitivities may be non-linear and the results of the sensitivity-testing should not be extrapolated to higher levels of stress. In calculating the scenario, the shift in the risk-free rate results in changes to investment returns, risk discount rates and bonus rates which are incorporated. The sensitivities shown are at Ultimate Forward Rate and before actions that could be taken by management to mitigate impacts and resultant changes in policyholder behaviour.

As at 30 June 2021, PVIF was calculated inclusive of the revised EIOPA Ultimate Forward Rate published in April 2021 and which will be applicable as of 1 January 2022 at 3.45 per cent (as at 31 December 2020: 3.65 per cent).

(c) Sensitivity of the PVIF to non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity as of 30 June 2021 to reasonably possible changes in these non-economic assumptions at that date. Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates is dependent on the type of contracts being written. For insurance contracts, the cost of claims is funded by premiums received and income earned on the investment portfolio supporting the liabilities. For a portfolio of term insurance, an increase in lapse rates typically has a negative effect on profit due to the loss of future premium income on the lapsed policies.

Expense rate risk is the exposure to a change in expense rates. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative impact on profits.

The following table presents the PVIF sensitivity:

	Effect on total equity at 30 Jun 2021[1]	Effect on total equity at 31 Dec 2020[1]
	€m	€m
10% increase in mortality and/or morbidity rates	**(17)**	(14)
10% decrease in mortality and/or morbidity rates	**18**	14
10% increase in lapse rates	**(24)**	(19)
10% decrease in lapse rates	**27**	21
10% increase in expense rates	**(40)**	(43)
10% decrease in expense rates	**40**	43

1 *Impacts on profits are shown after tax.*

Increased expense is entirely borne by the insurer and so reduces profits.

The impact of redemption rates variations is mainly explained by savings activity. For example, an increase of redemptions generates a decrease of the contract management, and therefore, a negative impact on the insurer's profits.

5 Fair values of financial instruments carried at fair value

The accounting policies, control framework, and the hierarchy used to determine fair values are consistent with those applied for the *Universal Registration Document 2020*.

Breakdown of financial instruments recorded at fair value by level of fair value measurement

Financial instruments carried at fair value and bases of valuation

	Valuation techniques				Amount with HSBC entities		
	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant non-observable inputs	Third-party total	Amounts with HSBC entities	*of which: Level 3*	Total
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2021							
Assets							
Trading assets	**14,341**	**1,188**	**35**	**15,564**	**29**	**—**	**15,593**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**3,932**	**6,417**	**2,218**	**12,567**	**243**	**—**	**12,810**
Derivatives	**16**	**24,749**	**82**	**24,847**	**16,897**	***395***	**41,744**
Financial investments	**8,642**	**6,499**	**902**	**16,043**	**311**	***127***	**16,354**
Liabilities							
Trading liabilities	**19,859**	**49**	**—**	**19,908**	**—**	**—**	**19,908**
Financial liabilities designated at fair value	**—**	**15,659**	**580**	**16,239**	**—**	**—**	**16,239**
Derivatives	**17**	**24,849**	**81**	**24,947**	**15,285**	***138***	**40,232**
At 31 Dec 2020							
Assets							
Trading assets	11,449	1,468	29	12,946	8	—	12,954
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,891	6,227	2,279	11,397	251	—	11,648
Derivatives	35	35,911	109	36,055	20,420	*491*	56,475
Financial investments	11,570	6,331	815	18,716	445	*127*	19,161
Liabilities							
Trading liabilities	17,809	19	—	17,828	—	—	17,828
Financial liabilities designated at fair value	—	16,340	552	16,892	—	—	16,892
Derivatives	17	37,706	239	37,962	17,752	*138*	55,714

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2021							
Transfers from Level 1 to Level 2	**174**	**195**	**—**	**—**	**—**	**—**	**—**
Transfers from Level 2 to Level 1	**120**	**226**	**465**	**—**	**6**	**—**	**—**
At 31 Dec 2020							
Transfers from Level 1 to Level 2	223	185	—	—	18	6,609	—
Transfers from Level 2 to Level 1	1,766	188	80	—	—	—	—

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total Assets	Trading Liabilities	Designated at fair value	Derivatives	Total Liabilities
	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2021									
Private equity including strategic investments	**21**	**—**	**1,907**	**—**	**1,928**	**—**	**—**	**—**	**—**
Asset-backed securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**580**	**—**	**580**
Derivatives	**—**	**—**	**—**	**82**	**82**	**—**	**—**	**81**	**81**
Other portfolios	**881**	**35**	**311**	**—**	**1,227**	**—**	**—**	**—**	**—**
HSBC Group subsidiaries	**127**	**—**	**—**	**395**	**522**	**—**	**—**	**138**	**138**
Total	**1,029**	**35**	**2,218**	**477**	**3,759**	**—**	**580**	**219**	**799**
At 31 Dec 2020									
Private equity including strategic investments	21	—	1,974	—	1,995	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—	—	—
Structured notes	—	—	—	—	—	—	552	—	552
Derivatives	—	—	—	109	109	—	—	239	239
Other portfolios	794	29	305	—	1,128	—	—	—	—
HSBC Group subsidiaries	127	—	—	491	618	—	—	138	138
Total	942	29	2,279	600	3,850	—	552	377	929

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2021	**942**	**29**	**2,279**	**600**	**—**	**552**	**377**
Total gains/(losses) recognised in profit or loss	**—**	**—**	**45**	**(32)**	**—**	**(57)**	**(3)**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis[1]	**—**	**—**	**—**	**(32)**	**—**	**—**	**(3)**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**45**	**—**	**—**	**(57)**	**—**
– gains less losses from financial investments at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income	**(18)**	**—**	**—**	**—**	**—**	**—**	**—**
– financial investments: fair value gains/(losses)	**(18)**	**—**	**—**	**—**	**—**	**—**	**—**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchases	**230**	**—**	**47**	**—**	**—**	**—**	**—**
New Issuances	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Sales	**(125)**	**—**	**(153)**	**—**	**—**	**—**	**—**
Settlements[1]	**—**	**—**	**—**	**(151)**	**—**	**(118)**	**(198)**
Transfers out	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers in	**—**	**6**	**—**	**60**	**—**	**203**	**43**
At 30 Jun 2021	**1,029**	**35**	**2,218**	**477**	**—**	**580**	**219**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2021	**—**	**—**	**40**	**(34)**	**—**	**(37)**	**(27)**
– trading income/(expense) excluding net interest income	**—**	**—**	**—**	**(34)**	**—**	**—**	**(27)**
– net income/(expense) from other financial instruments designated at fair value	**—**	**—**	**40**	**—**	**—**	**(37)**	**—**
At 1 Jan 2020	1,081	2	2,325	770	—	307	599
Total gains/(losses) recognised in profit or loss	—	(46)	(78)	210	—	67	197
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	(46)	—	210	—	—	197
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(78)	—	—	67	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	—	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	—	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	325	47	253	—	—	—	—
New Issuances	—	—	—	—	—	19	—
Sales	(243)	—	(83)	—	—	—	—
Settlements	—	—	(18)	(6)	—	39	3
Transfers out	—	—	—	(2)	—	(14)	(1)
Transfers in	—	50	—	2	—	196	20
At 30 Jun 2020	1,163	53	2,399	974	—	614	818
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2020	—	—	5	161	—	13	217
– trading income/(expense) excluding net interest income	—	—	—	161	—	—	217
– net income/(expense) from other financial instruments designated at fair value	—	—	5	—	—	13	—

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jul 2020	1,163	53	2,399	974	—	614	818
Total gains/(losses) recognised in profit or loss	—	44	153	(557)	—	57	(554)
– net income from financial instruments held for trading or managed on a fair value basis	—	44	—	(557)	—	—	(554)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	153	—	—	57	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	60	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	60	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	61	(1)	35	—	—	—	—
New Issuances	—	—	—	—	—	—	—
Sales	(342)	(46)	(241)	—	—	—	—
Settlements	—	(21)	(67)	111	—	(25)	90
Transfer out	—	—	—	—	—	(94)	—
Transfer in	—	—	—	72	—	—	23
At 31 Dec 2020	942	29	2,279	600	—	552	377
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 Dec	—	—	148	81	—	71	109
– trading income/(expense) excluding net interest income	—	—	—	81	—	—	109
– net income/(expense) from other financial instruments designated at fair value	—	—	148	—	—	71	—

1 *Movements over the six months to 30 June 2021 reflect a refinement in the bifurcation between 'Net income/(expense) from financial instruments held for trading or managed on a fair value basis' and 'Settlements'. Prior periods have not been re-presented.*

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 30 Jun 2021				At 31 Dec 2020			
	Reflected in profit or loss		Reflected in other comprehensive Income		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m	€m	€m	€m	€m
Derivatives/trading assets/trading liabilities[1]	**3**	**(3)**	**—**	**—**	9	(9)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**122**	**(122)**	**—**	**—**	121	(122)	—	—
Financial investments	**—**	**—**	**44**	**(44)**	—	—	43	(43)
HSBC Group subsidiaries	**11**	**(11)**	**6**	**(6)**	23	(23)	6	(6)
Total	**136**	**(136)**	**50**	**(50)**	153	(154)	49	(49)

1 *Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.*

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
At 30 Jun 2021				
Private equity investments including strategic investments	**107**	**(107)**	**2**	**(2)**
Asset-backed securities	**—**	**—**	**—**	**—**
Structured notes	**6**	**(6)**	**—**	**—**
Derivatives	**3**	**(3)**	**—**	**—**
Other portfolios	**9**	**(9)**	**42**	**(42)**
HSBC Group subsidiaries	**11**	**(11)**	**6**	**(6)**
Total	**136**	**(136)**	**50**	**(50)**
At 31 Dec 2020				
Private equity investments including strategic investments	102	(102)	1	(1)
Asset-backed securities	—	—	—	—
Structured notes	10	(10)	—	—
Derivatives	9	(9)	—	—
Other portfolios	9	(10)	42	(42)
HSBC Group subsidiaries	23	(23)	6	(6)
Total	153	(154)	49	(49)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95 per cent confidence interval.

Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data. When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or most unfavourable change by varying the assumptions individually.

Quantitative information about significant unobservable input in Level 3 valuations

	Fair value[1]				Full range of inputs	
	Assets	Liabilities			Lower	Higher
	€m	€m	Valuation technique	Key unobservable inputs	%	%
At 30 Jun 2021						
Private equity including strategic investments	**1,928**	**—**	**See notes below[4]**	**See notes below[4]**	**n/a**	**n/a**
Asset-backed securities	**—**	**—**				
– CLO/CDO[2]	**—**	**—**	**Market proxy**	**Bid quotes**	**n/a**	**n/a**
– other ABSs	**—**	**—**				
Structured notes	**—**	**580**				
– equity-linked notes	**—**	**376**	**Model – Option model**	**Equity volatility**	**—**	**44**
– fund-linked notes	**—**	**—**	**Model – Option model**	**Fund volatility**	**—**	**—**
– FX-linked notes	**—**	**—**	**Model – Option model**	**FX volatility**	**—**	**—**
– other	**—**	**204**				
Derivatives	**477**	**219**				
Interest rate derivatives	**363**	**144**				
– securitisation swaps	**120**	**—**	**Model – DCF[3]**	**Prepayment rate**	**50**	**50**
– long-dated swaptions	**114**	**46**	**Model – Option model**	**IR volatility**	**16**	**26**
– other	**129**	**98**				
Foreign exchange derivatives	**3**	**3**				
– foreign exchange options	**3**	**3**	**Model – Option model**	**FX volatility**	**5**	**17**
Equity derivatives	**111**	**71**				
– long-dated single stock options	**—**	**—**	**Model – Option model**	**Equity volatility**		
– other	**111**	**71**				
Credit derivatives	**—**	**1**				
– other	**—**	**1**				
Other portfolios	**1,354**	**—**				
Total Level 3	**3,759**	**799**				
At 31 Dec 2020						
Private equity including strategic investments	1,995	—	See notes below[4]	See notes below[4]	n/a	n/a
Asset-backed securities						
– CLO/CDO[2]	—	—	Market proxy	Bid quotes	n/a	n/a
– other ABSs	—	—				
Structured notes	—	552				
– equity-linked notes	—	285	Model – Option model	Equity volatility	—	51
– fund-linked notes	—	—	Model – Option model	Fund volatility	—	—
– FX-linked notes	—	—	Model – Option model	FX volatility	—	—
– other	—	267				
Derivatives	600	377				
Interest rate derivatives	435	219				
– securitisation swaps	141	—	Model – DCF[3]	Prepayment rate	50	50
– long-dated swaptions	131	56	Model – Option model	IR volatility	16	28
– other	163	163				
Foreign exchange derivatives	3	3				
– foreign exchange options	3	3	Model – Option model	FX volatility	7	16
Equity derivatives	162	155				
– long-dated single stock options	—	—	Model – Option model	Equity volatility	—	—
– other	162	155				
Credit derivatives						
– other	—	—				
Other portfolios	1,255	—				
Total Level 3	3,850	929				

1 *Including Level 3 balances with HSBC Group subsidiaries.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted Cash Flow.*
4 *See Note 11 Fair values of financial instruments carried at fair value of the Universal Registration Document 2020.*

6 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities, non-trading repurchase and reverse repurchase agreements are consistent with that detailed in the *Universal Registration Document 2020*.

Fair value of financial instruments not carried at fair value and basis of valuation

		Fair value			
	Carrying amount	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 30 Jun 2021					
Assets					
Loans and advances to banks	**6,588**	**–**	**6,589**	**–**	**6,589**
Loans and advances to customers	**54,870**	**–**	**–**	**54,974**	**54,974**
Reverse repurchase agreements – non-trading	**17,481**	**–**	**17,481**	**–**	**17,481**
Financial investments - at amortised cost	**6**	**–**	**–**	**6**	**6**
Liabilities					
Deposits by banks	**20,271**	**–**	**20,218**	**–**	**20,218**
Customer accounts	**65,334**	**–**	**65,326**	**–**	**65,326**
Repurchase agreements – non-trading	**6,456**	**–**	**6,456**	**–**	**6,456**
Debt securities in issue	**4,043**	**–**	**4,043**	**–**	**4,043**
Subordinated liabilities	**1,876**	**–**	**1,956**	**–**	**1,956**
At 31 Dec 2020					
Assets					
Loans and advances to banks	6,781	–	6,782	–	6,782
Loans and advances to customers	56,225	–	–	56,334	56,334
Reverse repurchase agreements – non-trading	21,522	–	21,522	–	21,522
Financial investments - at amortised cost	6	–	–	6	6
Liabilities					
Deposits by banks	17,204	–	17,145	–	17,145
Customer accounts	61,393	–	61,387	–	61,387
Repurchase agreements – non-trading	10,984	–	10,984	–	10,984
Debt securities in issue	3,605	–	3,605	–	3,605
Subordinated liabilities	1,876	–	1,958	–	1,958

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks and items in the course of collection from and transmission to other banks, all of which are measured at amortised cost.

7 Goodwill and intangible assets

Impairment testing

HSBC Continental Europe performed impairment testing in 2020 as described on pages 210-212 of the *Universal Registration Document 2020*. HSBC Continental Europe tests goodwill for impairment as at 31 December each year and whenever there is an indication that it may be impaired. At 30 June 2021, HSBC Continental Europe carried goodwill of EUR 66 million in the Asset Management business and there was no indication that it may be impaired.

8 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2020	268	41	14	323
Additions	**1**	**3**	**14**	**18**
Amounts utilised	**(66)**	**(3)**	**(6)**	**(75)**
Unused amounts reversed[1]	**(20)**	**(1)**	**(4)**	**(25)**
Exchange and other movements[2]	**15**	**—**	**3**	**18**
At 30 Jun 2021	**198**	**40**	**21**	**259**
Contractual commitments[3]				
At 31 Dec 2020				74
Net change in expected credit loss provisions and other movements				**(14)**
At 30 Jun 2021				**60**
Total provisions				
At 31 Dec 2020				397
At 30 Jun 2021				**319**

1 *Includes EUR (19) million reversal of provisions related to social plans. See Note 1.3 of Universal Registration Document 2020.*
2 *Includes amount transferred from other liabilities.*
3 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table under section 'Credit Risk'.*

Information relating to legal proceedings and regulatory matters related to HSBC Group entities can be found in Note 10.

9 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2021	31 Dec 2020
	€m	€m
Guarantees and contingent liabilities		
– financial guarantees	**9,117**	1,051
– performance and other guarantees	**8,986**	8,313
– other contingent liabilities	**—**	89
At the end of the period	**18,103**	9,453
Commitments[1]		
– documentary credits and short-term trade-related transactions	**1,009**	669
– forward asset purchases and forward deposits placed	**44,952**	46,975
– standby facilities, credit lines and other commitments to lend	**49,942**	51,912
At the end of the period	**95,903**	99,556

1 *Includes EUR 94,457 million of commitments at 30 June 2021 (31 December 2020: EUR 97,892 million), to which the impairment requirements in IFRS 9 are applied where HSBC Continental Europe has become party to an irrevocable commitment.*

The table above discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

10 Legal proceedings and regulatory matters relating to HSBC Group entities generally

HSBC Group entities, including HSBC Continental Europe, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 'Legal risks and litigation management' on pages 149 and 150 of the *Universal Registration Document 2020*, HSBC Continental Europe considers that none of these matters is significant. HSBC Continental Europe recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 30 June 2021.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in July 2020, and consented to a cease-and-desist order with the Federal Reserve Board (‘FRB’), both of which contained certain forward-looking anti-money laundering (‘AML’) and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who was, for FCA purposes, a ‘Skilled Person’ under section 166 of the Financial Services and Markets Act, and for FRB purposes, an ‘Independent Consultant’) to produce periodic assessments of the Group’s AML and sanctions compliance programme.

In 2020, HSBC’s engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, concluded. The role of FCA Skilled Person was assigned to a new individual in the second quarter of 2020. Separately, in early 2021, a new FRB Independent Consultant was appointed pursuant to the cease-and-desist order.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff’) was arrested in December 2008 in the United States and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC (‘Madoff Securities’), is being liquidated in the US by a trustee (the ‘Trustee’).

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities.

Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud, amongst which are HSBC Institutional Trust Services (Ireland) DAC (‘HTIE’) and/or its subsidiary Somers Dublin DAC.

On 1 August 2018 HSBC Continental Europe acquired from HSBC Bank plc 100 per cent of the shares of HTIE. Pursuant to the terms of the Sale and Purchase Agreement, HSBC Continental Europe and/or its subsidiaries will be indemnified by HSBC Bank plc in respect of certain liabilities relating to the activities of HTIE and/or Somers. (HTIE subsequently merged into HSBC Continental Europe Dublin Branch.)

The Madoff-related proceedings HTIE is involved in are described below:

Defender case:

In November 2013, Defender Limited brought an action against HTIE and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish Court issued a judgment in HTIE’s favour on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgment concluded the trial without further issues in dispute being heard. In February 2019, Defender Limited appealed the decision. In July 2020, the Irish Supreme Court ruled in favour of Defender Limited on certain aspects of the High Court judgment and returned the case to the High Court for further proceedings. In April 2021, the parties reached an agreement to resolve the dispute and, in May 2021, the claim against HTIE was discontinued.

US litigation:

The Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the ‘US Bankruptcy Court’), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the actions have moved to dismiss the Trustee’s claims. The US Bankruptcy Court granted HSBC’s motion to dismiss with respect to certain of the Trustee’s claims in November 2016. In February 2019, the US Court of Appeals for the Second Circuit (the ‘Second Circuit Court of Appeals’) reversed that dismissal. Following the US Supreme Court’s denial of certiorari in June 2020, the cases were remanded to the US Bankruptcy Court, where they are now pending.

European interbank offered rates investigations

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America (‘US’), the EU, Italy, Switzerland, and elsewhere are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates (Euribor). HSBC and/or its subsidiaries (including HSBC Continental Europe as a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews.

In December 2016, the European Commission (the ‘Commission’) issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC Continental Europe. HSBC appealed the decision and, in September 2019, the General Court of the EU (the 'General Court') issued a decision largely upholding the EC’s findings on liability, but annulling the fine. HSBC and the EC both appealed the General Court's decision to the European Court of Justice (the ‘Court of Justice’). In June 2021, the Commission adopted a new fining decision for an amount which was 5 percent less than the previously annulled fine, and subsequently withdrew its appeal to the Court of Justice. HSBC’s appeal remains pending.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, following the conclusion of the US Department of Justice's ('DoJ') investigation into HSBC's historical foreign exchange activities, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. In January 2021, the FX DPA expired, and the DOJ is expected to file a motion to dismiss the charges deferred by the FX DPA in due course.

11 Transactions with related parties

In June 2021, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturities of 7 and 8 years for a total notional amount of EUR 800 million subscribed by HSBC Bank plc, recognised as debt securities in issue.

There were no other changes to the related party transactions described in the *Universal Registration Document 2020* that have had a material effect on the financial position or performance of the HSBC Continental Europe's group in the six months to 30 June 2021.

12 Changes in consolidation perimeter during the first half-year of 2021

There were no material changes in the composition of HSBC Continental Europe in the half-year to 30 June 2021.

13 Events after the balance sheet date

There have been no other significant events between 30 June 2021 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

Statutory Auditors' review report on the interim financial information

PricewaterhouseCoopers Audit

63, rue de Villiers

92208 Neuilly-sur-Seine Cedex

BDO Paris Audit & Advisory

43-47, avenue de la Grande-Armée

75116 Paris

For the period from 1 January 2021 to 30 June 2021

This is a free translation into English of the statutory auditors' review report on the interim financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

HSBC Continental Europe

38, avenue Kléber

75116 Paris

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French monetary and financial code *(code monétaire et financier)*, we hereby report to you on:

- the review of the accompanying condensed interim consolidated financial statements of HSBC Continental Europe, for the period from 1 January 2021 to 30 June 2021;
- the verification of the information contained in the interim management report.

Due to the global crisis related to the Covid-19 pandemic, the condensed interim consolidated financial statements of this period have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our procedures.

These condensed interim consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1 Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, the standard of IFRSs as adopted by the EU applicable to interim financial information.

2 Specific verification

We have also verified the information given in the interim management report on the condensed interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Neuilly sur Seine and Paris, August 2, 2021

French original signed by

PricewaterhouseCoopers Audit
Agnès Hussherr

BDO Paris Audit & Advisory
Arnaud Naudan

Person responsible for the Universal Registration Document and its amendments

Mr Andrew Wild, Chief Executive Officer.

Statement by person responsible for the Universal Registration Document and its amendments

I certify, having taken all reasonable steps for this purpose, that the information provided in this amendment to the universal registration document is, to the best of my knowledge, true and accurate and contains no omission likely to affect its meaning.

I certify, to the best of my knowledge, that the condensed accounts for the first half of the financial year have been prepared in accordance with the relevant accounting standards and give a fair view of assets and liabilities, financial position and result of the company and of all the entities included in the consolidation, and that the interim management report on pages 11 to 17 presents a fair review of the significant events that occurred during the first six months of the financial year, their impact on the accounts and the major related party transactions, as well as a description of the principal risks and uncertainties for the remaining six months of the financial year.

Paris, 2 August 2021

Andrew Wild, CEO

Persons responsible for auditing the financial statements

	Date		
	First appointed	Re-appointed	Term ends
Incumbents			
PricewaterhouseCoopers Audit[1] Represented by Agnès Hussherr[2] 63, rue de Villiers 92200 Neuilly-sur-Seine	**2015**	**2018**	**2024**
BDO Paris Audit & Advisory[3] Represented by Arnaud Naudan[4] 43-47, avenue de la Grande Armée 75116 Paris	**2007**	**2018**	**2024**

1 Member of the Compagnie Régionale des Commissaires aux comptes of Versailles.
2 PricewaterhouseCoopers Audit represented by Agnès Hussherr starting from 2020.
3 Member of the Compagnie Régionale des Commissaires aux comptes of Paris.
4 BDO Paris Audit & Advisory represented by Arnaud Naudan starting from 2021.

Cross-reference table

The following cross-reference table refers to the main headings of the 2019/980 delegated regulation supplementing the 2017/1129 regulation (Annex I and Annex II) implementing the directive known as 'Prospectus' and to the pages of the *Universal Registration Document 2020* D.21-0075.

Sections of Annex I of the 2019/980 delegated regulation		Pages in the 2020 Universal Registration Document filed with the AMF on 24 Feb 2021	Pages in this amendment to the Universal Registration Document
1	**Persons responsible, third party information, experts' reports and competent authority approval**		
1.1 & 1.2	Persons responsible	page 280	page 84
1.3	Experts' reports	N/A	N/A
1.4	Third party information	N/A	N/A
1.5	Competent authority approval	N/A	N/A
2	**Statutory auditors**	page 281	page 85
3	**Risk factors**	pages 80 to 163	pages 18 to 38
4	**Information about the issuer**	page 277	N/A
5	**Business overview**		
5.1	Principal activities	pages 4, 9 to 20 and 240	pages 4 to 17
5.2	Principal markets	pages 4, 9 to 20 and 240	pages 4 to 17
5.3	Important events	pages 182 to 183, 240 to 241	page 70
5.4	Strategy and objectives	pages 4 to 9	pages 4 to 9
5.5	Potential dependence	N/A	N/A
5.6	Founding elements of any statement by the issuer concerning its position	pages 4 and 20	page 4
5.7	Investments	pages 227 to 230, 272 to 275, 284 to 285	N/A
6	**Organisational structure**		
6.1	Brief description of the group	pages 3 to 21, 263 and 272 to 275	N/A
6.2	Issuer's relationship with other group entities	pages 272 to 274	N/A
7	**Operating and financial review**		
7.1	Financial condition	pages 165, 167, 238 to 239	pages 63 and 65
7.2	Operating results	pages 13 to 20, 165 and 238	pages 11 to 17 and 63
8	**Capital resources**		
8.1	Issuer's capital resources	pages 169 and 255	page 67
8.2	Sources and amounts of the issuer's cash flows	page 168	page 66
8.3	Borrowing requirements and funding structure	pages 80, 129 to 130, 132 to 135	pages 39, 44, 59 to 62
8.4	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect the issuer's operations	N/A	N/A
8.5	Sources of funds needed	N/A	N/A
9	**Regulatory environment**	pages 11 to 12 and 142 to 143	pages 8 to 9
10	**Trend information**	pages 4 to 5, 8 and 9	pages 4 to 7
11	**Profit forecasts or estimates**	N/A	N/A
12	**Administrative, management and supervisory bodies and senior management**		
12.1	Administrative and management bodies	pages 23 to 31	page 10
12.2	Administrative and management bodies conflicts of interests	page 39	N/A
13	**Remuneration and benefits**		
13.1	Amount of remuneration paid and benefits in kind granted	pages 40 to 49, 186 to 190	N/A
13.2	Total amounts set aside or accrued by the issuer or its subsidiaries to provide for pension, retirement or similar benefits	pages 40 to 49, 186 to 190, 255 to 256	N/A
14	**Board practices**		
14.1	Date of expiration of the current term of office	pages 23 to 31	N/A
14.2	Information about members of the administrative, management or supervisory bodies' service contracts	N/A	N/A
14.3	Information about the issuer's audit committee and remuneration committee	pages 33 to 34, 36 to 37	N/A
14.4	Corporate governance regime	page 23	N/A
14.5	Potential material impacts on the corporate governance	N/A	N/A
15	**Employees**		
15.1	Number of employees	page 186	page 17
15.2	Shareholdings and stock options	pages 44 to 45	N/A
15.3	Arrangements involving the employees in the capital of the issuer	N/A	N/A
16	**Major shareholders**		
16.1	Shareholders holding more than 5 per cent of the share capital or voting rights	pages 277 to 279	N/A
16.2	Different voting rights	page 277	N/A
16.3	Control of the issuer	pages 23 to 24 and 281	page 85
16.4	Arrangements, known to the issuer, which may at a subsequent date result in a change in control of the issuer	N/A	N/A
17	**Related party transactions**	pages 50 to 52, 225 to 226, 227 to 230, 263 to 264	page 82

Cross-reference table

Sections of Annex I of the 2019/980 delegated regulation		Pages in the 2020 Universal Registration Document filed with the AMF on 24 Feb 2021	Pages in this amendment to the Universal Registration Document
18	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information	pages 20, 164 to 230, 237 to 264, 283	N/A
18.2	Interim and other financial information	N/A	pages 63 to 82
18.3	Auditing of historical annual financial information	pages 231 to 236 and 265 to 269	N/A
18.4	Pro forma financial information	N/A	N/A
18.5	Dividend policy	pages 192 and 279	page 70
18.6	Legal and arbitration proceedings	pages 149 to 151, 224 to 225, 261 to 262	pages 80 to 82
18.7	Significant change in the issuer's financial position	pages 19, 226 and 262	page 82
19	**Additional information**		
19.1	Share capital	pages 222, 255 and 279	N/A
19.2	Memorandum and Articles of Association	pages 277 to 279	N/A
20	**Material contracts**	page 279	N/A
21	**Documents available**	page 277	N/A

Sections of Annex II of the 2019/980 delegated regulation		Pages in the 2020 Universal Registration Document filed with the AMF on 24 Feb 2021	Pages in this amendment to the Universal Registration Document
1	**Information to be disclosed about the issuer**	page 2	page 2

The following elements are included by reference:

- the consolidated financial statements for the year ended 31 December 2019 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 155 to 221 and 222 to 225 of the reference document D.20-0071 filed with the AMF on 19 February 2020; the information can be found here: https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2019/annual-results/hsbc-continental europe/200219-hbfr-ara-2019-fr.pdf
- the consolidated financial statements for the year ended 31 December 2020 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 164 to 230 and 231 to 236 of the Universal Registration Document D.21-0075 filed with the AMF on 24 February 2021; the information can be found here: https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2020/annual-results/hsbc-continental europe/210224-hbfr-ara-2020-fr.pdf

These documents are available on the HSBC Continental Europe group's website (www.hsbc.fr) and on the AMF's website (www.amf-france.org).

Any person requiring additional information on the HSBC Continental Europe group may, without commitment, request documents by mail:

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