HSBC Continental Europe

1st Amendment of the Universal registration document and Interim Financial Report 2022

HSBC

Contents

Presentation of information

This amendment to the Universal Registration Document was filed on 1 August 2022 with the *Autorité des Marchés Financiers ('AMF')*, as the competent authority under Regulation (EU) n° 2017/1129, without prior approval in accordance with Article 9 of that Regulation.

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

All references to *Universal Registration Document 2021* refer to the *Universal Registration Document and Annual Financial Report 2021* filed on 23 February 2022 with the *Autorité des Marchés Financiers ('AMF')* under reference number D.22-0053.

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

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Reference to the Universal Registration Document

This amendment to the Universal Registration Document refers to the *Universal Registration Document and Annual Financial Report 2021* filed with the AMF on 23 February 2022 under reference number D.22-0053.

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 2022	30 Jun 2021	31 Dec 2021
For the period (€m)			
Profit/(loss) before tax (reported basis)	**184**	187	98
Profit/(loss) before tax (adjusted basis)[1]	**352**	243	288
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)[2]	**1,218**	1,296	1,067
Profit/(loss) attributable to shareholders of the parent company (reported basis)	**127**	153	116
At period end (€m)			
Total equity attributable to shareholders of the parent company	**8,801**	7,528	7,667
Total assets	**239,473**	230,901	222,664
Risk-weighted assets	**47,893**	47,702	47,795
Loans and advances to customers (net of impairment allowances)[3]	**57,717**	54,870	59,612
Customer accounts[4]	**66,911**	65,334	70,144
Capital ratios %			
Common equity tier 1	**13.7**	11.9	12.0
Tier 1	**15.8**	13.5	13.6
Total capital	**18.7**	16.4	16.5
Performance, efficiency and other ratios (annualised %)			
Annualised return on average shareholders' equity[5]	**3.1**	4.1	3.1
Pre-tax return on average risk-weighted assets (adjusted basis)	**0.7**	0.5	0.1
Cost efficiency ratio (adjusted basis)[6]	**73.2**	81.8	73.1
Liquidity Coverage Ratio ('LCR')	**145**	144	145
Net Stable Funding Ratio ('NSFR')[7]	**129**	137	130

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 *Loans and advances to customers of the Greece Branch are classified as held for sale and are not included. Please refer to Note 8 'Business disposals' in 'Notes on the condensed financial statements'.*
4 *Customer accounts of the Greece Branch are classified as held for sale and are not included. Please refer to Note 8 'Business disposals' in 'Notes on the condensed financial statements'.*
5 *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.*
6 *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).*
7 *According to the regulation EU 2019/876 of the European Parliament ('CRR II').*

Performance highlights

HSBC Continental Europe's performance during the first half of 2022 was positive with continued profitability driven by growth in wholesale banking revenues, demonstrating the strength of our global franchise and international connectivity, coupled with low credit losses and a favourable cost performance. With inflationary pressure across Europe and the ongoing Russia-Ukraine war, we expect to be operating in a more difficult environment for the remainder of the year.

Reported consolidated profit before tax was EUR 184 million, down from EUR 187 million in the first half of 2021, and included an exceptional loss and related impairments of EUR 111 million recognised in relation to the planned sale of HSBC Continental Europe's operations in Greece.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 1,218 million, down from EUR 1,296 million in the first half of 2021, including the exceptional loss recognised in relation to the planned sale of the operations in Greece and a less favourable PVIF movement – EUR 123 million in the first half of 2022, compared with a favourable movement of EUR 171 million in the first half of 2021. These impacts were largely offset by growth in Commercial Banking and Global Banking, which benefited from increased client activity and rising interest rates. In addition, Markets and Securities Services revenues increased due to higher transaction volumes, notably in Global Foreign Exchange and Securities Services.

Reported change in expected credit losses and other credit impairment charges was nil, compared to a release of EUR 1 million in the first half of 2021. The deterioration of forward-looking economic conditions driven by the rising risk of stagflation and disruption to energy supply was offset by the release of stage 3 provisions.

Reported operating expenses were EUR 1,034 million, down from EUR 1,111 million in the first half of 2021. The decrease was due to the recognition of a recovery of VAT paid in 2021 and lower staff costs, partly offset by transformation related costs.

Reported profit attributable to shareholders of the parent company was EUR 127 million for the half year to 30 June 2022, compared with EUR 153 million in the first half of 2021.

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 63 countries and territories.

Our purpose and ambition

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

HSBC Values

HSBC values 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 is implementing its strategy at pace across the four strategic pillars aligned to our purpose, values and ambition announced in February 2021.

The Group's strategy focuses on four key areas:

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

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

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

Transition to Net Zero: the Group's ambition is to support the transition to a Net Zero global economy. The Group has set out an ambitious plan to become a Net Zero bank by 2050, to support customers in their transition, and to unlock new climate solutions.

About HSBC Bank plc

With assets of GBP 710 billion at 30 June 2022, HSBC Bank plc is one of Europe's largest banking and financial services organisations. HSBC Bank plc employs approximately 14,600 people across Europe.

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 36 per cent of global goods trade and one-quarter of global Gross Domestic Product (UNCTAD, IMF 2021). In addition, Europe is the world's largest exporter of services (2020) and second largest exporter of manufactured goods (UNCTAD, IMF 2021).

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

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

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

HSBC Germany Holdings GmbH serves the EU's largest economy and one of the leading export nations globally (Eurostat and The World Trade Organization, 2021). 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, connecting East and West, with a complementary Wealth business, an efficient operating model and a robust control framework (see section 'Our Global Businesses' on page 7.

HSBC Bank plc exists to open up a world of opportunities for our customers by connecting them to international markets. Europe is the second largest goods trading region in the world and Asia is Europe's biggest and fastest growing external trading partner (UNCTAD, 2021). HSBC Bank plc is well positioned to capitalise on this opportunity and play a pivotal role for the Group.

About HSBC Continental Europe

HSBC in Continental Europe

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

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

HSBC strategy implemented in Continental Europe

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

Focus on our strengths

Be the leading international wholesale bank in Continental Europe

HSBC Continental Europe is building a leaner, simpler bank with a sharper strategic focus and an ambition to grow. We have redesigned our franchise around the needs of our international clients, streamlining our participation model and maintaining product and service capability where clients demand them. We also support Europe's ambition to be at the forefront of international efforts to fight climate change, becoming a market leader in sustainable financing, achieving Net Zero in the Group's operations and supply chain by 2030 or sooner, and aligning the Group's financed emissions to the Paris Agreement goal to achieve Net Zero by 2050 or sooner.

We are simplifying our operating structure. In response to the requirement for an Intermediate Parent Undertaking ('IPU') in line with EU Capital Requirements Directive for European Union banking entities ('CRD V'), we are planning to acquire HSBC Trinkaus & Burkhardt GmbH ('HSBC Germany') and HSBC Bank Malta plc in the second half of 2022, and HSBC Private Bank (Luxembourg) SA in the first half of 2023. This legal entity restructuring remains subject to regulatory approvals for which the process has now started.

The planned disposals of our retail operations in France and of our branch operations in Greece

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

This step marked the start of an implementation process expected to complete in the second half of 2023, subject to regulatory approval. During the first half of 2022, we have started the preparation for the IT migration. Until the completion of the transaction, the business remains part of, and will be managed by HSBC Continental Europe. See Note 8 on page 77 for further financial information on the transaction.

Following a strategic review of our branch operations in Greece, an in-principle agreement to sell our operations to Pancreta Bank SA was signed in March 2022. Following consultations with the respective works councils, the binding Sale and Purchase Agreement was signed in May 2022. The transaction is subject to obtaining regulatory approvals, and would be expected to close in the first half of 2023. See Note 8 on page 77 for further financial information on the transaction.

In support of the implementation of its strategy, in March 2022, HSBC Continental Europe executed a capital increase of EUR 700 million. In addition, in July 2022, the Board of Directors convened an Extraordinary General Meeting on 2 September 2022 to propose a further share capital increase of EUR 1.3 billion. See Note 1 and 14 on pages 69 and 80.

The transformation of our Private Banking operations

We are working towards implementing a new operating model for our Private Banking activities, in which we will serve our current HSBC Continental Europe's Private Banking clients from a Paris branch of HSBC Private Bank (Luxembourg) SA.

Given the enhanced product range that will be available to clients and the high quality of the infrastructure in place in Luxembourg, the new operating model will allow us to enable the delivery of an enhanced HSBC offering to our European Private Banking clients.

As a first step, the Paris branch of HSBC Private Bank (Luxembourg) SA was created in March 2022. The second step, which will see our Private Banking clients transfer from HSBC Continental Europe to the Paris branch of HSBC Private Bank (Luxembourg) SA, is expected to be completed during the second half of the year, subject to obtaining the authorisation of the competent financial, government and regulatory bodies. In addition, HSBC Continental Europe is planning to acquire HSBC Private Bank (Luxembourg) SA in the first half of 2023 in response to the requirement for an IPU in line with the CRD V regulation.

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, HSBC Group is accelerating the roll-out of its 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.

As the world becomes increasingly mobile and digitally focused, great strides have been made with the continued development and enhancements of our digital channels in Global Liquidity and Cash Management ('GLCM'). We pursued our investments in Robotics for our customers using HSBCnet to reduce set up times and provide customers with faster access to banking products, while pursuing the roll-out of e-signatures and maximising existing self-serves available via HSBCnet. These developments have contributed to a significant rise in the number of customers moving to mobile banking, as they embrace the opportunity to access our banking services on the go. We have also introduced enhanced customer service tools for HSBC staff, enabling comprehensive visibility into the file processing journey including status and payment rejection error messages. The result is reduced query resolution time for client questions. We have invested in HSBC Developer Portal and API Sandbox, which allows customers and developers to explore the right APIs to enable rapid integration with their own products.

Our strategy within Global Trade and Receivable Finance ('GTRF') Europe is to make trade easier, faster and safer, whilst delivering sustainable and profitable growth. We are strengthening our digital capabilities through continuous enhancements of proprietary channel HSBCnet and investing in SWIFT for Corporates for Trade to enable latest market standards.

We are also ramping up efforts to embed our product capabilities in Global Trade ecosystem in collaboration with third-party platforms, such as providing market leading technology for Supply Chain Finance solutions, rolling out a blockchain solution that fully digitises Letters of Credit, and establishing partnership to address the needs of our Commodities clients for multi-bank proposition.

As a result, more than 80 per cent of trade transactions across Europe are conducted digitally.

In Foreign Exchange, we further enhanced our electronic trading infrastructure to provide improved risk management to our clients.

Our focus is to support customers' FX and cross-border payment needs through improved pricing tools and e-trading.

We are continuing to invest in strengthening the security of our technology infrastructure and further alignment of IT systems across HSBC Continental Europe.

Energise for growth

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

Inspire a dynamic culture

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

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

We have deployed a comprehensive development program over this period of transformation, named 'Resilience'. It is offering our employees inspiring conferences, peer coaching for managers, as well as wellbeing workshops.

Champion inclusion

We have a strong commitment to increase diverse representation across our organisation (e.g. achieve more than 35 per cent of female senior leadership by the end of 2025), raising awareness on the importance of diversity in our governance committees as well as in our Diversity and Inclusion ('D&I') working groups, collaborating closely with our Employee Resources Group ('ERG').

In the first half of 2022, we have (i) assessed and benchmarked our practices in terms of 'D&I Footprint' with our partner Mixity; (ii) launched a new training programme on inclusion, open to all, in addition to specific trainings on 'Mental Health' and 'Inclusive Leadership'; (iii) worked to achieve our gender diversity targets (defined in the charter signed with the association *'Financi'Elles'* alongside other major financial institutions), reaching an important milestone with 44 per cent of women within the HSBC Continental Europe Executive Committee; (iv) fostered cultural diversity awareness through dedicated conferences and exchanges; (v) initiated the creation of two Employee Resources Groups, the latter dedicated to parents of children with disabilities and the former dedicated to cognitive diversity; (vi) we will keep working with our local Pride ERG across our European markets, and the newly-created European Pride ERG to support an inclusive environment through sensitisation of our employees on these topics throughout the year.

Develop future skills

In HSBC Continental Europe, the Future Skills programme has been pursued throughout the first semester with different masterclasses: communication with impact, mental health, resilience, digital skills etc.

For managers, specific courses have been proposed such as inclusive leadership. In addition, actions have been taken to promote Degreed, an integrated training platform, and encourage our staff to adopt new learning habits.

We continue to encourage staff to take some time every week to explore learning opportunities to support their self-development.

Transition to Net Zero

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

Becoming a Net Zero bank

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

It includes a commitment to set up sector-based targets, a Climate Transition Plan and reporting annually on progress, reviewing clients' transition plans and updating our financing and investment policies critical to achieving the transition to Net Zero. In Continental Europe, we are continuing our Net Zero journey assessing our exposure to thermal coal (at 0.21 per cent of our total loan book for HSBC Continental Europe at year end 2021) as part of our commitment to phase-out of thermal coal financing in the EU and the Organisation for Economic Cooperation and Development ('OECD') by 2030.

HSBC Continental Europe aims to be Net Zero in its own operations and supply chain by 2030 or sooner. In 2021, greenhouse gas emissions per Full Time Employee were 0.48 tonnes equivalent CO_2.

Supporting our customers

HSBC Group aims to provide and facilitate between USD 750 billion and USD 1 trillion of sustainable finance and investment by 2030 to support customers in their transition to Net Zero and a sustainable future.

HSBC Continental Europe supports its clients, including corporates, individual clients and financial institutions and investors, in transitioning to a low carbon economy, through the deployment of dedicated products and services. We have a dedicated origination team which works with our Commercial Banking customers to structure sustainable finance transactions, including through green and impact lending.

This helps HSBC Continental Europe to align its financing and investment portfolio to the standards set by the Paris Agreement. HSBC Continental Europe's cumulative contribution to the Group's target since 1 January 2020 amounted to USD 53.6 billion at 30 June 2022, representing 31 per cent of total Group progress up to the end of June 2022, a large part of which related to supporting our clients with their green and social bond issuances.

HSBC acted as arranger and documentation bank/Paying Agent for the largest Environmental, Social and Governance ('ESG') linked Schuldschein in Belgium to date and the largest non-German/Austrian Schuldschein since 2017.

Over the first half of 2022, HSBC Continental Europe undertook a series of virtual training sessions dedicated to Global Banking and Commercial Banking relationship managers and open to all businesses and global functions to deepen their knowledge and expertise on sustainable finance (challenges, opportunities, EU Taxonomy) and enable them to engage with our customers.

Unlocking new climate solutions

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

Our Global Businesses

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

Global Banking and Markets ('GBM')

Markets & Securities Services ('MSS')

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

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

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

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

Global Banking ('GB')

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

We provide a comprehensive suite of services including leverage and acquisition financing, advisory, equity and debt capital markets, issuer services, trade services and global liquidity and cash management.

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

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

Priorities for GB in Continental Europe are to be a top bank in transaction banking and key advisory, financing and capital markets mandates in order to help clients seize international growth opportunities, leveraging the Group's expertise and global network.

GBM Other

GBM Other comprises activities that are outside of the perimeter of MSS and GB, primarily Principal Investments ('PI') and GBM's share of the Bank's Treasury function. Our PI portfolio comprises two elements; (i) investments in third party private equity funds; and (ii) legacy direct investments. PI in HSBC Continental Europe is focused on reducing the portfolio size in line with HSBC Group's risk appetite and strategy.

Commercial Banking ('CMB')

CMB has a clear strategy to be the leading international Corporate Bank in Europe. We help to connect our customers across all HSBC Continental Europe's countries to our international network of relationship managers and product specialists; supporting their growth ambitions and targets. Our products, which are designed to help our customers seize growth opportunities, range from term loans to region-wide treasury and trade solutions.

[1] *Reflecting the reorganisation of the GBM management structure performed in 2021.*

CMB is at the centre of creating revenue synergies within the Group: we collaborate closely with our Global Banking and Markets colleagues to provide expertise in capital finance and advisory solutions to support our CMB clients.

Our trade teams within CMB also provide import and export finance solutions to Global Banking clients.

We also enable customers to gain visibility over their liquidity positions, which in turn helps clients to unlock efficiencies in their Treasury structures. Aligned with the EU Net Zero strategy, we are expanding our services and products to provide customers with innovative sustainable finance solutions and ensuring our relationship managers are informed to match these to our clients' Net Zero ambitions.

Wealth and Personal Banking ('WPB')

In France and Greece, WPB serves approximately 930,000 customers with their financial needs through Retail Banking, Wealth Management, Insurance, Asset Management and Private Banking.

HSBC Continental Europe offers a full range of products and services to meet the personal banking and wealth management needs of customers from personal banking to ultra-high net worth individuals.

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

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

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.

Our priority is to do what we can to provide our customers 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 throughout 2020 and 2021.

We have also 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.

We have also 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

Global

Global economic activity has been exposed to several shocks in the first half of the year.

A new wave of Covid-19 at the start of the year caused new disruptions, in particular in Europe and in the US. But the wave proved to be relatively short and the reopening process has led to a sharp rebound in economic indicators, especially in services.

However, the war in Ukraine, which started at the end of February, caused new uncertainties in triggering a significant increase in some commodity prices. As a result, inflation in developed countries, which was already elevated due to the supply disruptions caused by the pandemic, climbed further. This has led major central banks to adopt a far more restrictive policy in order to avoid a wage-price spiral.

In spite of the surge in inflation and in long-term interest rates, economic activity in main developed countries has remained resilient according to the latest indicators.

In the US, inflation rose to 9.1 per cent year-on-year in June 2022, from 7.0 per cent in December 2021. Due to elevated tensions in the labour market and a sharp pick-up in wage pressures, the Federal Reserve ('Fed') has reacted strongly. It has stopped its asset purchases in March 2022 and raised its Fed Funds target rate by 150 basis points between March and June 2022 (including a 75 basis points rate hike at the June 2022 meeting, the sharpest rise since 1994). In spite of these actions, economic activity has remained firm. Gross Domestic Product ('GDP') contracted by 1.6 per cent quarter-on-quarter (annualised) in the first quarter of 2022, but it reflected in large part a surge in imports, due to supply disruptions. The labour market has remained solid, showing no signs of softening so far. On the other hand, interest rates has started to impact activity in the housing market, which is showing signs of deceleration, in particular for credit demand and home sales.

In other developed countries, several central banks have also raised rates markedly: it was the case in the UK, in other Western European countries (Sweden, Norway, Switzerland), in Canada and in Asia-Pacific (Australia, New Zealand). Markedly different, the Bank of Japan ('BoJ') has remained dovish, as core inflation remains under its price objective.

In mainland China, the economic background has been less supportive. Renewed Covid-19 waves have led to local lockdowns in several large cities, especially Shanghai and Shenzhen. As a result, economic activity fell in April and has only moderately recovered in May and June. As a consequence, GDP contracted by 2.6 per cent quarter-on-quarter, but the gradual lift of restrictions since May 2022 should pave the way for a rebound in the third quarter. This situation could still exacerbate the disruptions in supply global chains, which have tended to ease since the start of the year. Other Asian economies have generally not followed the same virus-elimination strategy, which could limit the global impact on supply disruptions.

Eurozone

In the Eurozone, inflation has risen to 8.6 per cent year-on-year in June 2022, from 5.0 per cent in December 2021. The rise has been mainly fuelled by energy prices but other categories (food, manufactured goods and services) have also contributed.

Given this backdrop, the European Central Bank ('ECB') stopped its asset purchases under the Asset Purchases Programme ('APP') on 1 July 2022.

It also announced on 21 July 2022 a rate hike of 50 basis points of its policy rates (the first rate rise since 2011), contradicting the guidance provided in June 2022 (signalling a rate hike of 25 basis points). The ECB justified this decision by the latest upside surprises on inflation, but also by the introduction a of new tool (called Transmission Protection Instrument or 'TPI') to prevent the risk of unwarranted tightening in financial conditions for some specific countries and so protect the monetary transmission channel.

In spite of this, business surveys have generally shown signs of resilience, especially in the services sector thanks to the post-pandemic reopening and the revival in tourism activity.

But confidence in the manufacturing sector has been softer, especially in countries like Germany which is more exposed to the risk of a abrupt stop of energy imports from Russia.

In France, the rise in inflation has been more limited (6.5 per cent year-on-year in June 2022 on the EU harmonised measure, from 3.4 per cent in December 2021) thanks to the measures taken by the government to protect the households' purchasing power (curb in regulated prices for gas and electricity, subsidies for petrol fuel purchases). French GDP fell by 0.2 per cent quarter-on-quarter in the first quarter of 2022 (versus a rise of 0.6 per cent quarter-on-quarter for the whole Eurozone) due to the impact of the Omicron variant, denting the recent trend of outperformance for the French economy. A GDP rebound is expected for the second quarter of 2022, as business surveys have remained resilient.

Economic outlook

Inflation and central banks' actions

The outlook on inflation remains currently very uncertain. In particular, the outcome of the war in Ukraine is still difficult to predict and therefore, risks on commodity prices are still biased on the upside. Moreover, given that tensions in labour markets for developed countries remain elevated, risks of second round effects on wages and inflation expectations slippage cannot be dismissed. Under that scenario, inflation could become more entrenched and a marked decline of markets in 2023 would be more likely.

The Fed has signalled that it would continue to raise its Fed Funds rate target sharply, if inflation pressures are not showing signs of moderation. Against that backdrop, we expect another 75 basis points rate hike in July 2022 and a total of 225 basis points rate hike by the end of January 2023. For the ECB, we expect policy rates to be raised again by 50 basis points in September 2022. Thereafter, we expect 100 basis points of additional rate hikes by the end of March 2023. Other main central banks should also continue to raise their policy rates by the end of the year, with the notable exception of the BoJ.

Recession risks

Given the sharp policy tightening in developed countries, a recession in the US and in Europe cannot be excluded. However, our central scenario includes a sharp slowdown rather than an outright recession. Indeed, the solid financial shape (in aggregate) of households (due to the savings accumulated during the pandemic) and corporates should limit the downside risks on consumption and investment. In addition, the dynamism of wages should limit the deterioration of households' purchasing power.

Nonetheless, the risk of recession remains more elevated in Europe than in the US, due to the higher exposure to energy imports from Russia.

Another source of uncertainty remains the outlook for mainland China. The recent gradual lift of restrictions should lead to an economic recovery in the second half of 2022, an outcome also favoured by the various support measures taken by the authorities (both on fiscal and monetary policy). However, renewed Covid-19 waves, leading to a return of restrictions in some large cities, cannot be ruled out. The outlook of the property markets also remains a source of risk, with recent activity data remaining weak (both for sales and prices) in spite of the recent easing in regulatory measures taken in several large cities.

Looking ahead, with inflationary pressure across Europe, Central Banks raising interest rates and the outbreak of war in Ukraine, HSBC Continental Europe is expecting to be operating in a more volatile environment for the remainder of the year.

Regulatory developments

The Basel III Reforms ('the Reforms')

In October 2021, the European Commission ('EC') published a first draft of the rules implementing the reforms in the European Union (the third Capital Requirements Regulation or 'CRR3' and the sixth Capital Requirements Directive or 'CRD6'), with a proposed implementation date of 1 January 2025 including an output floor phased-in until 2030. The draft rules are now subject to an extensive negotiation process with the EU Council and Parliament before they are finalised and currently include some significant deviations from the Reforms.

In March 2022, the European Banking Authority's ('EBA') published final draft technical standards on default probabilities and Loss Given Default ('LGD') for default risk model under the new internal model approach ('IMA') for market risk. In May 2022, the EBA also launched a consultation to explore whether and how environmental risks are to be incorporated into the Pillar 1 prudential framework. This follows the EC's proposals to bring forward the EBA report on a dedicated prudential treatment for ESG risks by two years, to June 2023.

ESG-related risks and disclosures requirements

In March 2022, the ECB published its updated assessment on the progress made by EU banks in disclosing meaningful information on climate and environmental risks. During the course of 2022, the ECB is conducting several climate-related supervisory activities. This includes the first climate stress test performed between March and July 2022 and will also include a review on how banks will incorporate climate and environmental risks into their processes.

In April 2022, the EC published a consultation on ESG ratings and sustainability factors in credit ratings following the European Securities and Markets Authority ('ESMA') call for evidence in February 2022. This will help the EC evaluate the need for a possible policy initiative on this topic.

In March 2022, the European Supervisory Authorities ('ESAs') issued a joint statement on the application of the Sustainable Finance Disclosure Regulation ('SFDR') with their expectations about the explicit quantification of the product disclosures under Article 5 and 6 of the Taxonomy Regulation and the use of estimates in the interim period. In April 2022, the Commission adopted Regulatory Technical Standards ('RTS') for SFDR which the ESAs further clarified in June 2022. The RTS will apply from 1 January 2023, ending the interim period.

In April 2022 the European Financial Reporting Advisory Group ('EFRAG') launched a consultation on draft European Sustainability Reporting Standards Exposure ('ESRS') drafts.

These correspond to the first set of standards required under the proposal for a CSRD and cover environmental, social and governance matters.

In June 2022 the European Parliament and Council reached provisional political agreement on the Corporate Sustainability Reporting Directive ('CSRD'). which amends the Non-Financial Reporting Directive ('NFRD') and introduces more detailed reporting requirements on sustainability issues. The CSRD broadens the scope for EU entities and also includes Non-EU entities with substantial activity in the EU.

In July 2022, the European Commission has released the amendment to the EU taxonomy Commission Delegated Regulation to include technical screening criteria for economic activities in the fossil gas and nuclear energy sectors. This Regulation shall apply from 1 January 2023.

Other developments

In April 2022, the EU adopted technical standards on the Interest Rate Risk in the Banking Book ('IRRBB') Pillar 3 disclosures.

During the same month, France's High Council for Financial Stability published its formal decision to increase the Countercyclical Buffer rate to 0.50 per cent from 7 April 2023.

In May 2022, the EBA published amended final draft technical standards on the mapping of external credit ratings for securitisation positions computed under the Securitisation External Ratings Based Approach ('SEC-ERBA').

In June 2022, the EBA published four draft principles to support supervisory efforts in assessing the representativeness of Covid-19 impacted data for banks using internal ratings based ('IRB') models.

They will be part of a supervisory handbook (published later in 2022), aiming at ensuring a harmonised approach in the use of Covid-19 data, especially where the use of moratoria and other public measures may have led to changes in default rates.

HSBC Continental Europe Consolidated Results

Summary consolidated income statement

	Half-year to		
	30 Jun 2022	30 Jun 2021	31 Dec 2021
	€m	€m	€m
Net interest income	**556**	480	507
Net fee income	**485**	457	458
Net income from financial instruments held for trading or managed on a fair value basis	**211**	90	(9)
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**(1,332)**	787	439
Changes in fair value of long-term debt and related derivatives	**(22)**	(6)	(5)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**18**	19	33
Gains less losses from financial investments	**(6)**	17	(1)
Net insurance premium income	**902**	875	757
Other operating income/(expense)	**48**	217	77
Total operating income	**860**	2,936	2,256
Net insurance claims and benefits paid and movement in liabilities to policyholders	**358**	(1,640)	(1,189)
Net operating income before change in expected credit losses and other credit impairment charges	**1,218**	1,296	1,067
Change in expected credit losses and other credit impairment charges	**—**	1	(34)
Net operating income	**1,218**	1,297	1,033
Total operating expenses	**(1,034)**	(1,111)	(935)
Operating profit/(loss)	**184**	186	98
Share of profit in associates and joint ventures	**—**	1	—
Profit/(loss) before tax	**184**	187	98
Tax expense	**(57)**	(34)	17
Profit/(loss) for the period	**127**	153	115
– shareholders of the parent company	**127**	153	116
– non-controlling interests	**—**	—	(1)

Reported performance

Net interest income was EUR 556 million, up from EUR 480 million in the first half of 2022. Interest income increased from EUR 829 million to EUR 978 million mainly driven by favourable interest rate impacts, the deployment of Negative Credit Interest for corporate clients and higher transaction volumes. This was partly offset by the increase in interest expense from EUR 349 million in the first half of 2021 to EUR 422 million in the first half of 2022, reflecting higher funding costs.

Net fee income was EUR 485 million in the first half of 2022, up from EUR 457 million in the first half of 2021. The increase was mainly driven by higher fees income on Global Liquidity and Cash Management activities in Commercial Banking and Global Banking through both volume and pricing impacts, as well as from M&A Advisory activities in Global Banking.

Net income from financial instruments held for trading or managed on a fair value basis was EUR 211 million in the first half of 2022, up from EUR 90 million in the first half of 2021. The increase reflected mark-to-market gains on derivatives in Insurance Manufacturing, increased interest income on trading positions and increased client activity within Markets and Securities Services, as well as the non-recurrence of losses booked in 2021 related to exits from the Structured Rates portfolio.

Net income from assets and liabilities of insurance measured at fair value through profit and loss was EUR (1,332) million in the first half of 2022, down from EUR 787 million in the first half of 2021. This reflected the change in the market value of assets held by the insurance company on behalf of its customers.

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss was EUR 18 million in the first half of 2022, compared to EUR 19 million in the first half of 2021.

Gain less losses from financial investments was EUR (6) million in the first half of 2022, down from EUR 17 million in the first half of 2021.

Net Insurance premium income was EUR 902 million in the first half of 2022, up from EUR 875 million in the first half of 2021. This increase was related to improved product sales compared to 2021.

Other operating income was EUR 48 million in the first half of 2022, down from EUR 217 million in the first half of 2021. The reduction is due to the loss on sale of operations in Greece following classification as held for sale. It also reflected a less favourable PVIF movement (EUR 123 million in the first half of 2022, compared with a favourable movement of EUR 171 million in the first half of 2021), driven by lower favourable market conditions.

Net insurance claims and movements in liabilities to policyholders were EUR 358 million in the first half of 2022, up from EUR (1,640) million in the first half of 2021, mainly driven by the change in the market value of assets recognised at fair value for insurance unit-linked investments and by the reduction of the deferred participation on Euro-fund due to market effects.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 1,218 million in the first half of 2022, down from EUR 1,296 million in the first half of 2021. This was the result of the losses on sale of operations in Greece as this business was classified as 'held-for-sale', and lower favourable market impacts on PVIF.

This was partly offset by higher net interest income and fee growth in Commercial Banking and Global Banking, as well as increased trading income in Markets and Securities Services.

Change in expected credit losses and other credit impairment charges was nil in the first half of 2022, compared to a release of EUR 1 million in the first half of 2021. This primarily reflected the deterioration of forward-looking economic conditions driven by rising risk of stagflation and disruption to energy supply, offset by stage 3 releases.

Operating expenses were EUR (1,034) million in the first half of 2022, down from with EUR (1,111) million in the first half of 2021. The decrease was mainly driven by the recognition of a recovery of VAT paid in 2021, lower staff costs following the completion of restructuring activities in 2020 and 2021 and lower administrative expenses, partly offset by increased transformation-related costs.

Consolidated Profit before tax was EUR 184 million in the first half of 2022, down from EUR 187 million for the first half of 2021.

Net profit attributable to shareholders of the parent company was EUR 127 million in the first half of 2022.

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 62.

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 6 and 7 of the *Universal Registration Document 2021*.

By operating segment

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

	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
Half-year to 30 Jun 2022							
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Reported revenue	**467**	**410**	**186**	**251**	**27**	**(123)**	**1,218**
Significant revenue items[1]	—	—	(7)	—	—	100	93
Adjusted revenue	**467**	**410**	**179**	**251**	**27**	**(23)**	**1,311**
Half-year to 30 Jun 2021							
Reported revenue	544	363	155	224	4	6	1,296
Significant revenue items	—	—	2	—	26	(2)	26
Adjusted revenue	544	363	157	224	30	4	1,322
Half-year to 31 Dec 2021							
Reported revenue	394	362	99	279	(89)	22	1,067
Significant revenue items	—	—	4	—	129	(4)	129
Adjusted revenue	394	362	103	279	40	18	1,196

1 *Includes losses associated with sale of Greece branch operations recognised in 2022. Please refer to Note 8 'Business Disposals' in 'Notes on the condensed financial statements'*

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

	Half-year to 30 Jun 2022						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
Reported operating expenses	**(368)**	**(221)**	**(201)**	**(140)**	**(36)**	**(68)**	**(1,034)**
Significant cost items	**7**	**6**	**—**	**—**	**5**	**57**	**75**
– impairment of Goodwill, Intangibles and Tangibles	**—**	**—**	**—**	**—**	**—**	**8**	**8**
– restructuring cost and other significant items	**7**	**6**	**—**	**—**	**5**	**49**	**67**
Adjusted operating expenses	**(361)**	**(215)**	**(201)**	**(140)**	**(31)**	**(11)**	**(959)**
	Half-year to 30 Jun 2021						
Reported operating expenses	(399)	(241)	(230)	(136)	(34)	(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)	(230)	(136)	(32)	(32)	(1,081)
	Half-year to 31 Dec 2021						
Reported operating expenses	(366)	(184)	(146)	(124)	(31)	(84)	(935)
Significant cost items	3	3	—	—	(1)	56	61
– impairment of Goodwill, Intangibles and Tangibles	—	—	—	—	—	3	3
– restructuring cost and other significant items	3	3	—	—	(1)	53	58
Adjusted operating expenses	(363)	(181)	(146)	(124)	(32)	(28)	(874)

Net impact on profit before tax by business segment

	Half-year to 30 Jun 2022						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
Reported profit/(loss) before tax	**97**	**200**	**(15)**	**101**	**(8)**	**(191)**	**184**
Significant revenue items	**—**	**—**	**(7)**	**—**	**—**	**100**	**93**
Significant cost items	**7**	**6**	**—**	**—**	**5**	**57**	**75**
Adjusted profit/(loss) before tax	**104**	**206**	**(22)**	**101**	**(3)**	**(34)**	**352**
Net impact on reported profit and loss	**7**	**6**	**(7)**	**—**	**5**	**157**	**168**
	Half-year to 30 Jun 2021						
Reported profit/(loss) before tax	155	89	(75)	111	(29)	(64)	187
Significant revenue items	—	—	2	—	26	(2)	26
Significant cost items	2	(13)	—	—	2	39	30
Adjusted profit/(loss) before tax	157	76	(73)	111	(1)	(27)	243
Net impact on reported profit and loss	2	(13)	2	—	28	37	56
	Half-year to 31 Dec 2021						
Reported profit/(loss) before tax	38	143	(47)	145	(119)	(62)	98
Significant revenue items	—	—	4	—	129	(4)	129
Significant cost items	3	3	—	—	(1)	56	61
Adjusted profit/(loss) before tax	41	146	(43)	145	9	(10)	288
Net impact on reported profit and loss	3	3	4	—	128	52	190

Adjusted profit/(loss) for the period

	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
Half-year to 30 Jun 2022							
Net operating income before change in expected credit losses and other credit risk provisions	**467**	**410**	**179**	**251**	**27**	**(23)**	**1,311**
Change in expected credit losses and other credit risk	**(2)**	**11**	**—**	**(10)**	**1**	**—**	**—**
Net operating income	**465**	**421**	**179**	**241**	**28**	**(23)**	**1,311**
Total operating expenses	**(361)**	**(215)**	**(201)**	**(140)**	**(31)**	**(11)**	**(959)**
Operating profit/(loss)	**104**	**206**	**(22)**	**101**	**(3)**	**(34)**	**352**
Share of profit in associates and joint ventures	**—**	**—**			**—**	**—**	**—**
Adjusted profit/(loss) before tax	**104**	**206**	**(22)**	**101**	**(3)**	**(34)**	**352**
Half-year to 30 Jun 2021							
Net operating income before change in expected credit losses and other credit risk provisions	544	363	157	224	30	4	1,322
Change in expected credit losses and other credit risk	10	(33)	—	24	—	—	1
Net operating income	554	330	157	248	30	4	1,323
Total operating expenses	(397)	(254)	(230)	(137)	(31)	(32)	(1,081)
Operating profit/(loss)	157	76	(73)	111	(1)	(28)	242
Share of profit in associates and joint ventures	—	—	—	—	—	1	1
Adjusted profit/(loss) before tax	157	76	(73)	111	(1)	(27)	243
Half-year to 31 Dec 2021							
Net operating income before change in expected credit losses and other credit risk provisions	394	362	103	279	40	18	1,196
Change in expected credit losses and other credit risk	10	(35)	—	(11)	2	—	(34)
Net operating income	404	327	103	268	42	18	1,162
Total operating expenses	(363)	(181)	(146)	(123)	(33)	(28)	(874)
Operating profit/(loss)	41	146	(43)	145	9	(10)	288
Share of profit in associates and joint ventures	—	—	—			—	—
Adjusted profit/(loss) before tax	41	146	(43)	145	9	(10)	288

Adjusted performance

Adjusted profit before tax was EUR 352 million for the first half of 2022, compared with the EUR 243 million recorded in the first half of 2021. This increase was mainly driven by higher wholesale business revenues and lower costs, driven by the benefit of restructuring activities in reducing staff costs and an update of the VAT recovery rate, including the recognition of a recovery of VAT paid in 2021.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 1,311 million in the first half of 2022, down from EUR 1,322 million in the first half of 2021. The decrease was related to a lower favourable PVIF movement (EUR 123 million in the first half of 2022, compared with a favourable movement of EUR 171 million in the first half of 2021). Offsetting this impact, higher revenues in Commerical Banking and Global Banking were mainly due to balance sheet growth and increased fee income, as well as the benefit of increased interest rates on net interest income. Markets and Securities Services revenue reflected increased client activity in Foreign Exchange and Global Debt Markets and higher volumes in Securities Services.

Change in expected credit losses and other credit impairment charges is nil in the first half of 2022, compared to a release of EUR 1 million in the first half of 2021. This primarily reflected the deterioration of forward-looking economic conditions driven by rising risk of stagflation and disruption to energy supply, offset by stage 3 releases.

Adjusted operating expenses totalled EUR (959) million in the first half of 2022, compared with EUR (1,081) million in 2021. The decrease was driven by lower staff costs following restructuring actions taken in 2021 and lower VAT costs including the recognition of a recovery of VAT paid in 2021. This was partly offset by higher technology costs.

Wealth and Personal Banking ('WPB')

Adjusted profit before tax was EUR 104 million in the first half of 2022, down from EUR 157 million in June 2021. This reflected lower revenue in insurance manufacturing due to adverse impact of EUR 69 million from less favorable market movements, partly offset by lower operating expenses.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 467 million in the first half of 2022, down compared to EUR 544 million in June 2021. This decrease was the result of lower favourable market impacts on life insurance manufacturing, mainly due to equity markets. Despite higher balances, interest income was lower than prior year due to higher costs of funding. Net fee income was above the prior year driven by higher foreign exchange revenue.

Change in expected credit losses and other credit impairment charges was a net charge of EUR (2) million compared with a net release of EUR 10 million in June 2021. The net charge reflected a deterioration in the forward economic outlook due to the impact of the Russia-Ukraine war and higher inflation.

Adjusted operating expenses decreased by EUR 36 million to EUR (361) million compared to (397) million in June 2021, primarily due to the update of the VAT recovery rate, efficiency gains in the business and continued cost discipline.

Loans and advances to customers were EUR 24.4 billion at 30 June 2022, an increase of 2 per cent compared to 30 June 2021 excluding Greece loans and advances to customers now reported as held for sale. The increase reflected lower home loan prepayments.

Total Assets Under Management from customers, inclusive of HSBC Assurances Vie (France), were EUR 57.3 billion in June 2022, a decrease of 4 per cent compared to June 2021 excluding Greece Assets Under Management now reported as held for sale. The decrease was mainly due to adverse fair value movements and lower net inflows impacting wealth assets which decreased 12 per cent, partly offset by increased customer deposits, which increased 4 per cent to EUR 21.9 billion.

Commercial Banking ('CMB')

Adjusted profit before tax was EUR 206 million in the first half of 2022, up from EUR 76 million in the first half of 2021.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 410 million in the first half of 2022, an increase of EUR 47 million compared to EUR 363 million in the first half of 2021. The increase was driven by higher revenue in Lending and also Receivable Finance activities, as well as increasing Foreign Exchange revenues in the context of higher market volatility. In addition, there were improved deposits margins benefiting from higher interest rates.

Change in expected credit losses and other credit impairment charges was a net release of EUR 11 million, compared with a net charge of EUR (33) million in the first half of 2021, following stage 3 releases.

Adjusted operating expenses decreased by EUR 39 million to EUR (215) million, compared to EUR (254) million in the first half of 2021, mainly due to lower staff costs following restructuring plans implemented in 2021.

Loans and advances to customers were EUR 18.7 billion at 30 June 2022, an increase of 7 per cent compared to 30 June 2021 driven by Corporate Lending and Receivable Finance.

Deposits decreased by EUR 2.2 billion, due to the reduction of balances that were first impacted by significant inflows linked to the Covid-19 pandemic.

Markets and Securities Services ('MSS')

Adjusted loss before tax was EUR (22) million in the first half of 2022, compared to a loss of EUR (73) million in the first half of 2021, driven by higher revenues in Foreign Exchange, Global Debt Markets and Securities Services and lower operating expenses.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 179 million in the first half of 2022, an increase of EUR 22 million compared to EUR 157 million the first half of 2021. The increase was driven by higher revenue in Foreign Exchange supported by client activity, Global Debt Markets driven by primary business and non-linear activity and Securities Services from higher volumes. This was partly offset by lower revenue in Equity and additional charges on credit valuation adjustments.

Adjusted operating expenses were EUR (201) million in the first half of 2022, a reduction of EUR 29 million compared to EUR (230) million in the first half of 2021. This was driven by lower front office and support function costs following cost restructuring actions taken in 2020 and 2021.

Customer deposits grew by EUR 3.5 billion driven by the transfer of accounts held with HSBC Securities Services from HSBC Bank plc.

Global Banking ('GB')

Adjusted profit before tax was EUR 101 million in the first half of 2022, a decrease of EUR 10 million compared to EUR 111 million in the first half of 2021.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 251 million in the first half of 2022, an increase of EUR 27 million compared to EUR 224 million in the first half of 2021. Global Liquidity and Cash Management revenues increased significantly driven by improved deposit margins and higher fee income. M&A revenues increased significantly benefiting from strong momentum carried into the beginning of 2022. Lending revenues have increased in line with increased balances. Capital Markets revenues were significantly lower reflecting the challenging market environment.

Change in expected credit losses and other credit impairment charges was a charge of EUR (10) million compared with a net release of EUR 24 million in the first half of 2021.

Adjusted operating expenses were EUR (140) million in the first half of 2022, an increase of EUR 3 million compared to EUR (137) million in the first half of 2021 reflecting higher support costs.

Loans and advances to customers were EUR 14.0 billion at 30 June 2022, an increase of 9 per cent compared to 30 June 2021 following the transfer of activities relating to EEA clients to HSBC Continental Europe from HSBC Bank plc.

Customer deposits were EUR 13.0 billion as at 30 June 2022, marginally lower than June 2021.

Global Banking and Markets Other

Adjusted loss before tax was EUR (3) million in the first half of 2022, compared to a loss of EUR (1) million in the first half of 2021, mainly driven by lower revenue.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 27 million in the first half of 2022, compared to EUR 30 million in the first half of 2021.

The decrease was driven by a reduction in principal investments revenue due to reduction in the portfolio compared to the first half of 2021.

Adjusted operating expenses were EUR (31) million, stable compared to the first half year of 2021.

Corporate Centre

Adjusted loss before tax was EUR (34) million in the first half of 2022, compared to a loss of EUR (27) million in the first half of 2021.

Adjusted net operating income before expected credit loss and other credit risk provisions was a loss of EUR (23) million for the first half of 2022, compared with EUR 4 million in 2021, driven by intracompany recoveries now booked directly to operating expenses and the impact of fair value movements in hedging ineffectiveness.

Adjusted operating expenses were EUR (11) million for the first half of 2022 compared to EUR (32) million in 2021.

Profit before tax by country (Reported)

	Half-year to 30 Jun 2022						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
France	106	130	(29)	90	(8)	(77)	212
Belgium	—	—	1	—	—	1	2
Czech Republic	—	11	1	—	—	—	12
Greece	(9)	(1)	(3)	4	(1)	(111)	(121)
Ireland	—	12	5	—	—	(1)	16
Italy	—	—	2	3	—	(1)	4
Luxembourg	—	—	(5)	5	—	(2)	(2)
Netherlands	—	25	5	(1)	—	—	29
Poland	—	15	2	—	—	1	18
Spain	—	6	6	—	—	(1)	11
Sweden	—	2	—	—	—	—	2
United Kingdom	—	—	—	—	—	—	—
Others	—	—	—	—	1	—	1
Profit/(loss) before tax	**97**	**200**	**(15)**	**101**	**(8)**	**(191)**	**184**

	Half year to 30 Jun 2021						
France	158	44	(86)	78	(28)	(60)	106
Belgium	—	2	1	—	—	—	3
Czech Republic	—	6	1	—	—	—	7
Greece	(3)	(1)	—	16	—	(1)	11
Ireland	—	10	6	—	—	(2)	14
Italy	—	2	1	11	(1)	(1)	12
Luxembourg	—	—	(7)	1	(1)	—	(7)
Netherlands	—	14	3	(1)	—	—	16
Poland	—	5	4	—	—	—	9
Spain	—	7	2	8	—	—	17
Sweden	—	—	—	(1)	—	—	(1)
United Kingdom	—	—	—	—	—	—	—
Others	—	—	—	(1)	1	—	—
Profit/(loss) before tax	155	89	(75)	111	(29)	(64)	187

	Half year to 31 Dec 2021						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	€m	€m	€m			€m	€m
France	40	93	(54)	134	(116)	(50)	47
Belgium	—	4	1	—	—	—	5
Czech Republic	—	8	1	—	1	—	10
Greece	(2)	(3)	(3)	7	2	(2)	(1)
Ireland	—	12	5	—	—	—	17
Italy	—	2	—	4	—	(4)	2
Luxembourg	—	—	(6)	1	—	(3)	(8)
Netherlands	—	15	5	(1)	(1)	—	18
Poland	—	6	4	—	—	(3)	7
Spain	—	6	(1)	7	(1)	—	11
Sweden	—	—	—	1	—	—	1
United Kingdom	—	—	—	—	—	—	—
Others	—	—	1	(8)	(4)	—	(11)
Profit/(loss) before tax	38	143	(47)	145	(119)	(62)	98

Review of business position

Summary consolidated balance sheet

	30 Jun 2022 €m	31 Dec 2021 €m
Total assets	**239,473**	222,664
Cash and balances at central banks	**39,619**	38,063
Trading assets	**14,750**	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**11,535**	13,345
Derivatives	**52,506**	39,634
Loans and advances to banks	**5,985**	6,832
Loans and advances to customers	**57,717**	59,612
Reverse repurchase agreements – non-trading	**13,989**	20,487
Financial investments	**15,310**	16,110
Other assets	**25,938**	15,658
Assets held for sale	**2,124**	2
Total liabilities	**230,663**	214,988
Deposits by banks	**19,264**	18,548
Customer accounts	**66,911**	70,144
Repurchase agreements – non-trading	**9,722**	8,731
Trading liabilities	**15,447**	16,247
Financial liabilities designated at fair value	**11,924**	13,733
Derivatives	**47,765**	35,895
Debt securities in issue	**7,049**	7,414
Liabilities under insurance contracts	**20,735**	23,698
Other liabilities	**29,591**	20,578
Liabilities of disposal groups held for sale	**2,255**	—
Total equity	**8,810**	7,676
Total shareholders' equity	**8,801**	7,667
Non-controlling interests	**9**	9

Balance sheet information

	Wealth and Personal Banking €m	Commercial Banking €m	Markets and Securities Services €m	Global Banking €m	Global Banking and Markets Other €m	Corporate Centre €m	Total €m
As at 30 Jun 2022							
Loans and advances to customers[1]	**24,435**	**18,727**	**471**	**13,971**	**43**	**70**	**57,717**
Customers accounts[2]	**21,878**	**26,168**	**5,522**	**13,012**	**655**	**(324)**	**66,911**
As at 31 Dec 2021							
Loans and advances to customers	24,639	17,826	267	16,870	101	(91)	59,612
Customers accounts	22,372	28,626	4,685	14,034	725	(298)	70,144

1 *Loans and advances to customers of Greece Branch classified as held for sale not included. Please refer to Note 8 'Business disposals' in 'Notes on the condensed financial statements'.*
2 *Customer accounts of Greece Branch classified as held for sale not included. Please refer to Note 8 'Business disposals' in 'Notes on the condensed financial statements'.*

HSBC Continental Europe's consolidated balance sheet had total assets of EUR 239.5 billion at 30 June 2022, compared to EUR 222.7 billion at 31 December 2021.

Assets

- Deposits with the Central Bank increased from EUR 38.1 billion to EUR 39.6 billion. This increase reflected the overall balance sheet position with net inflows mainly due to lower reverse repos activity.
- Loans and advances to customers decreased from EUR 59.6 billion to EUR 57.7 billion, mainly reflecting repayments in Global Banking.
- Derivatives increased by EUR 12.9 billion mainly as a result of mark-to-market movements on interest rate swaps.

Liabilities

- Customer accounts were down from EUR 70.1 billion to EUR 66.9 billion during the first half of the year. This was mainly driven by the reclassification of the Greek branch to held for sale, coupled with a decrease in Commercial Banking.
- Derivatives increased by EUR 11.9 billion mainly as a result of mark-to-market movements on interest rate swaps.
- Trading liabilities were EUR 15.4 billion at 30 June 2022, a decrease by EUR 0.8 billion.

Equity

Shareholders' equity stood at EUR 8.8 billion, up from EUR 7.7 billion in 2021.

The CET1 (Common Equity Tier 1) ratio was 13.7 per cent at 30 June 2022 and a total capital ratio was 18.7 per cent.

Liquidity and funding

At 30 June 2022, the short-term Liquidity Coverage ratio ('LCR') was 145 per cent and the long-term Net Stable Funding Ratio ('NSFR') computed in respect of CRR II guidelines was 129 per cent.

Additional disclosure on Treasury risk is available on page 37.

Average number of persons employed by HSBC Continental Europe

	Half-year to		
	30 Jun 2022	30 Jun 2021	31 Dec 2021
Wealth and Personal Banking	**3,980**	4,076	4,039
Commercial Banking	**1,176**	1,577	1,396
Market & Securities Services	**487**	247	530
Global Banking	**277**	661	312
Global Banking and Markets Other[1]	**—**	107	84
Corporate Centre	**13**	12	14
Support Functions & Others[2]	**2,490**	2,465	2,532
Total[3]	**8,423**	9,145	8,907

1 *Figures in 2022 reflect the transfer of employees from 'Global Banking and Markets Other' to 'Support functions and others'.*
2 *Including pre-retirement ('CFCS') and expatriates.*
3 *Permanent contracts ('CDI') and fixed terms contracts ('CDD') within HSBC Continental Europe (including the European branches) and its subsidiaries.*

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+

No changes have occurred to HSBC Continental Europe ratings during the first half of 2022.

Annual review meetings with rating agencies were held in May and June 2022.

Risks

Risk factors

HSBC Continental Europe has identified a comprehensive list of risk factors that cover the broad range of risks our businesses are exposed to.

A number of the risk factors have the potential to have a material adverse effect on our business, prospects, financial condition, capital position, reputation, results of operations and/or our customers. They frame the ongoing assessment of our top and emerging risks that may result in our risk appetite being revised.

For the risks linked to Covid-19 see 'Areas of Special Interest' on page 32.

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.	Very Likely	High
	Market fluctuations may reduce HSBC Continental Europe's income or the value of its portfolios.	Likely	Medium
	HSBC Continental Europe may lose access to its liquidity or funding sources, which are essential to its businesses.	Unlikely	Medium
Macro-prudential, regulatory and legal risks	HSBC Continental Europe is subject to numerous legislative or regulatory requirements and developments and changes in the policy of regulators or governments and the risk is not to comply with all the regulations in the time allowed.	Likely	High
Risks related to our operations	HSBC Continental Europe could incur losses or be required to hold additional capital as a result of model limitations or weaknesses.	Very Likely	High
	HSBC Continental Europe remain susceptible to a wide range of cyber-risks that impact and/or are facilitated by technology.	Likely	High
	HSBC Continental Europe's operations are highly dependent on our information technology systems.	Likely	High
	HSBC Continental Europe's operations utilise third-party and intra group suppliers and service providers which may be exposed to risks that HSBC Continental Europe may not be aware of.	Likely	Medium
Risks related to our governance and internal control	The delivery of HSBC Continental Europe's strategic actions is subject to execution risk which could impact the expected benefits of its strategic initiatives.	Likely	High
	HSBC Continental Europe's data management and data privacy controls must be sufficiently robust to support the increasing data volumes and evolving regulations.	Likely	High
	Third parties may use HSBC Continental Europe as a conduit for illegal activities without its knowledge.	Likely	Medium
Risks related to our business	HSBC Continental Europe is subject to financial and non-financial risks associated with Environmental, Social and Governance ('ESG') related matters, such as climate change and, nature-related risks and human rights issues.	Very Likely	High
	Risks concerning borrower credit quality are inherent in HSBC Continental Europe's businesses.	Likely	High
	HSBC Continental Europe is exposed to capacity and capability risk resulting from elevated attrition and talent retention challenges.	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
	Non-Financial risks are inherent to HSBC Continental Europe's business, including the risk 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: Very Likely/Impact: High.

Uncertain and at times volatile economic conditions can create a challenging operating environment for financial services companies such as HSBC.

In particular, HSBC Continental Europe has faced and may continue to face the following challenges to its operations and operating model in connection with:

- the Russian invasion of Ukraine which has led to elevated geopolitical instability, and resulted in the US, UK and EU, as well as other countries, imposing significant sanctions and other trade restrictions against Russia, numerous government officials and individuals, and Russian companies and financial institutions, some of which are unprecedented in their nature. Russia has implemented certain countermeasures in response.
- the Covid-19 outbreak and its impact on global economies could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial services companies such as HSBC Continental Europe;
- the demand for borrowing from creditworthy customers may diminish during periods of recession or where economic activity slows or remains subdued;

- HSBC Continental Europe's ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption; and
- market developments may depress consumer and business confidence beyond expected levels. If economic growth is subdued, for example, asset prices and payment patterns may be adversely affected, leading to greater than expected increases in delinquencies, default rates and Expected Credit Losses (ECLs). However, if growth is too rapid, new asset valuation bubbles could appear, particularly in the real estate sector, with potentially negative consequences for banks.

The occurrence of any of these events or circumstances could have a material adverse effect on our business, financial condition, results of operations, prospects and customers.

HSBC Continental Europe continually assesses the impact of geopolitical events.

The Russia-Ukraine war continues to have far reaching geopolitical and economic implications. We are monitoring the direct and indirect impacts of the war on the Group, and continue to respond to new sanctions regulations, noting the challenges that arise in implementing the complex, novel and ambiguous aspects of certain of these sanctions.

The repercussions from the Russia-Ukraine war, alongside the economic impacts that continue to result from Covid-19, have pushed up the prices of a broad range of commodities, with the resulting increase in inflation creating further challenges for monetary authorities and our customers. Central banks in the European region have stepped up the pace of policy tightening in 2022 to help ease inflationary pressures, but may need to calibrate this pace depending on the evolution of the economic growth outlook. There is a risk that the combination of excessive tightening and worse-than-anticipated economic effects from the Russia-Ukraine war, including as a result of the extensive sanctions, trade restrictions and countermeasures that have been and may in the future be implemented, precipitates a recession in parts of the European economy. The European Central Bank announced on 21 July 2022 a bigger-than-expected rate hike of 50 basis points of its policy rates (the first rate rise since 2011), contradicting the guidance provided in June 2022 (signalling a rate hike of 25 basis points). The ECB justified this decision by the latest upside surprises on inflation, but also by the introduction a of new tool (called Transmission Protection Instrument or 'TPI') to prevent the risk of unwarranted tightening in financial conditions for some specific countries and so protect the monetary transmission channel. HSBC Continental Europe continues to monitor its risk profile closely in the context of uncertainty over monetary policy.

The escalation in inflation has triggered a policy re-assessment in the ECB. The second quarter of 2022 saw the largest quarterly move in implied short-term eurozone interest rates on record. This reflected more upward surprises to inflation and a hawkish pivot from central banks globally. Eurozone inflation reached a new high of 8.6 per cent year-on-year for June, with nine countries in the bloc seeing double-digit annual inflation.

Energy prices continue to account for almost half of annual inflation. Wholesale energy prices rose again through the quarter, with a particularly sharp rise in near-term gas prices from mid-June, when Russia cut drastically its supply of gas into Europe. Food prices are also surging, particularly in products where a high proportion had previously been imported from Ukraine. Disruption to planting, the rising cost of energy and fertiliser as well as rising food trade protectionism across the world suggests the impact could be persistent.

But inflation is broadening out beyond energy and food, with more evidence of 'second round' effects.

Pay growth has picked up and labour shortages are widely reported. However, negotiated pay deals still seem remarkably restrained given the inflation backdrop. The eurozone labour market still seems less tight than in the UK (or US).

Despite strong labour markets, high inflation means European consumers are concerned. The intensifying real income squeeze has helped send consumer confidence surveys lower. However, fiscal policy is supportive. In Germany, France and Italy, a range of measures have each amounted to roughly EUR 30 billion.

Higher inflationary concerns in the region could also have an impact on ECL going forward. The global economic recovery in 2021 eased financial difficulties for some of HSBC Continental Europe's customers, which contributed to a reduction in Expected Credit Losses ('ECL') charges. In the first half of 2022 HSBC Continental Europe continued to carry out enhanced monitoring of model outputs and use of model overlays, including management judgemental adjustments based on the expert judgement of senior credit risk managers. Inflation has been considered both directly in certain models, and assessed via adjustments where not directly considered. Continuing economic uncertainty resulting from heightened inflation could cause ECL model inputs to produce modelled loss results that are not reliable.

The Russia-Ukraine war and the Covid-19 pandemic have brought supply chain issues into focus, with shortages appearing across the regions and products throughout 2020 and 2021, and it is not expected that these issues will ease significantly before the second half of 2022.

The outlook is dependent on whether there will be a smooth and gradual decline in Russian gas imports. Inflows of gas from Russia have already fallen and a sudden cut-off is possible. But should gas supplies be cut further, this would hamper Europe's effort to re-fill gas storage ahead of the winter. In turn, energy rationing may become a reality, which would make recession hard to avoid.

Fragmentation risk exists – the risk that different economies within the single currency face vastly different financial conditions – looms over the eurozone economy. The borrowing yield spread between Italian and German governments has widened materially, as it did in the run up to the Eurozone sovereign debt crisis about a decade ago. In reaction, the ECB has said that it would come up with an anti-fragmentation tool to allow for an even transmission of its desired monetary policy across the Eurozone, and hence help keep the Eurozone together.

Market fluctuations may reduce HSBC Continental Europe's income or the value of its portfolios. Probability: Likely/ Impact: Medium.

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

Market movements will continue to significantly affect HSBC Continental Europe in a number of key areas.

For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, equity risk, inflation risk and credit spread risk.

Changes in interest rate levels, interbank spreads over official rates, yield curves and spreads affect the interest rate spread realised between lending and borrowing costs. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict our ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

Our insurance businesses are also exposed to the risk that market fluctuations will cause mismatches to occur between product liabilities and the investment assets that back them. It is difficult to predict with any degree of accuracy changes in market conditions, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations.

See also section 'Market risk in 2022' on page 61.

As at 30 June 2022, Market Risk RWAs were EUR 3.586 billion of which EUR 376 million were under standardised approach and EUR 3.210 billion under Internal Model Approach ('IMA').

The standardised RWAs include EUR 101 million of Foreign exchange risk and EUR 274 million of equity. RWAs under IMA include EUR 468 million VaR RWAs, EUR 1.319 billion Stressed VaR RWAs, EUR 502 million of Incremental risk charge RWAs and EUR 921 million other. See tables: Market risk under standardised approach and Market risk under IMA on page 58.

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

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

Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding, and we place considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in our capital strength and liquidity, and on comparable and transparent pricing.

Although deposits have always been a stable source of funding historically, even in times of economic crisis, under an extreme scenario this may not continue.

HSBC Continental Europe also accesses wholesale markets in order to provide funding to align asset and liability balances, maturities and currencies, and to contribute to the financing of our lending and market activities. Non-favourable macroeconomic developments, market disruptions or regulatory developments may increase our funding costs or challenge the ability of HSBC Continental Europe to raise funds to support or expand its businesses.

If the bank were unable to raise funds through deposits and/or in the capital markets, our liquidity position could be adversely affected, and we could be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet our obligations under committed financing facilities and insurance contracts or to fund new loans, investments and businesses. We may need to liquidate unencumbered assets to meet our liabilities.

In such an extreme scenario and in a time of reduced liquidity, we may be unable to sell some of our assets, or we may need to sell assets at reduced prices, which in either case could materially adversely affect our business, prospects, financial condition and results of operations. It is difficult to predict with any degree of accuracy changes in access to funds, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations. Nevertheless, a number of contingent actions and procedures – including business actions, and accessing the central bank refinancing operations are in place in HSBC Continental Europe's Contingency Funding Plan in order to tackle such a situation should it happen, which materially reduces the impact of this risk should it materialise.

HSBC Continental Europe will no longer have access to retail deposits and covered bonds after the sale of its retail activities in France. However, given the business is a net consumer of funding, its disposal is not expected to adversely affect the overall funding position of the bank.

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

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

HSBC Continental Europe is subject to numerous legislative or regulatory requirements and developments and changes in the policy of regulators or governments and the risk is not to comply with all the regulations in the time allowed.
Probability: Likely/Impact: High.

HSBC Continental Europe businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in France, the EU, the UK and US and the other markets in which we operate. This is particularly the case given the expected long term economic impact of the Covid-19 outbreak and the consequent high volume and wide-ranging regulatory interventions. Additionally, many of these changes have an effect beyond the country in which they are enacted, as either regulators deliberately enact regulation with extra-territorial impact or our global operations mean that HSBC is obliged to give effect to local laws and regulations on a wider basis.

In recent years, regulators and governments have focused on reforming both the prudential regulation of the financial services industry and the ways in which the business of financial services is conducted.

Measures include enhanced capital, liquidity and funding requirements, the separation or prohibition of certain activities by banks, changes in the operation of capital markets activities, the introduction of tax levies and transaction taxes, changes in compensation practices and more detailed requirements on how business is conducted.

The governments and regulators in France, the EU, the UK and US or elsewhere may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect us.

Specific areas where regulatory changes could have a material effect on our business, financial condition, results of operations, prospects, capital position, and reputation and current and anticipated areas of particular focus for HSBC's regulators, include, but are not limited to:

- the regulatory response to the Covid-19 pandemic and the management thereof;
- the increasing focus by regulators, international bodies, organisations and unions on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets;
- the abolition of certain Ibor reference rates across the world and the transition to new replacement rates,including the assessment and the management of conduct risks;
- reviews of regulatory frameworks applicable to the wholesale financial markets, including reforms and other changes to conduct of business, listing, securitisation and derivatives related requirements;
- the focus globally on technology and digital, underpinned by customer protection, including the use of artificial intelligence and digital assets (data, identity and disclosures), financial technology risks, payments and related infrastructure, operational resilience, virtual currencies (including central bank digital currencies and Global Stablecoin) and cybersecurity and the introduction of new and/or enhanced standards in this area;
- the challenges for institutions arising from expanding and increasingly complex regulatory reporting obligations, including high supervisory expectations for data integrity and the governance around regulatory reporting;
- increasing regulatory expectations of firms around governance and risk management frameworks, particularly for management of environmental and climate changes, conflicts of interest, money laundering, financing terrorist risk, diversity and inclusion and enhanced ESG disclosure to customers and reporting obligations;
- the implementation of the reforms to the Basel III package, which includes changes to the approaches to credit risk, market risk, counterparty risk, operational risk, credit valuation adjustment, Risk Weighted Assets ('RWAs') and the application of capital floors;
- the setup of an Intermediate EU IPU incorporating all EU banking activities of the Group;
- the implementation of more stringent capital, liquidity and funding requirements, including changes to Internal ratings-based modelling requirements;
- the financial effects of climate and environmental changes being incorporated within the global prudential framework, including the transition risks resulting from a shift to a low carbon economy;
- the implementation of any conduct measures as a result of regulators' focus on institutional culture, employee behaviour and whistleblowing, including measures resulting from ongoing thematic reviews into the workings of the retail, SME and wholesale banking sectors, the provision of financial advice to consumers and the customers protection including vulnerable clients;
- changes in national or supra-national requirements, including the finalisation of European Banking Authority Guidelines on outsourcing remediation, regarding the ability to offshore or outsource the provision of services and resources or transfer material risk to financial services companies located in other countries, which impact our ability to implement globally consistent and efficient operating models;
- financial crime and market abuse standards and high expectations for control frameworks, to ensure firms are adapting to new threats such as those arising from the Covid-19 outbreak, and are protecting customers from cyber-enabled crime;
- the application and enforcement of economic sanctions including those with extra-territorial effect and those arising from geopolitical tensions;
- the increasing regulatory expectations and requirements relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions; and
- continuing regulatory focus on the effectiveness of internal controls and risk management frameworks.

We continue to strengthen our processes and controls over regulatory reporting, including commissioning independent external reviews of various aspects of regulatory reporting. We continue to keep the relevant regulators informed of adverse findings from external reviews and our progress in strengthening the control environment.

Risks related to our operations

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

HSBC Continental Europe uses models for a range of purposes in managing its business, including 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 2022 – see table: Overview of risk weighted exposure amounts on page 46.

Likewise, models are used to infer the fair value of some financial instruments, such as over-the-counter derivatives ('OTC'), whose price cannot be directly observed on trading platforms: 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 2022 – see Note 5 on page 72.

The adoption of more sophisticated modelling approaches including artificial intelligence related risks and technology by both HSBC and the financial services industry could also lead to increased model risk. HSBC Continental Europe's commitment to changes to business activities due to climate and sustainability challenges will also have an impact on model risk going forward. Models will play an important role in risk management and financial reporting of climate related risks. The uncertainty of the long dated impacts of climate change and lack of robust and high quality climate related data present challenges to creating reliable and accurate model outputs for these models.

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

The threat of cyber-attacks remains a concern for HSBC Continental Europe, as it does across the entire financial sector. Failure to protect the HSBC Group's operations from internet crime or cyber-attacks may result in financial loss, disruption for customers or a loss of data. This could undermine the HSBC Group's reputation and its ability to attract and keep customers.

The most prevalent cybersecurity threats intend to prevent customers from accessing our online services by attempting to exploit vulnerabilities in our systems (through malware or unauthorised access), disrupt our business, and cause data loss.

In the context of the war between Russia and Ukraine, HSBC Continental Europe is continuously analysing the evolving cyber threats, maintaining close contact sector peers and government partners.

There have been no material cyber-related breaches that impacted our customers or operations in 2022.

However, the risk remains that future cyber-related attacks will have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

HSBC Continental Europe did not report any operational losses related to Cyber risks in either 2019, 2020, 2021 or in the first half of 2022.

Operational losses for combined Technology and Cyber Security risk were zero in first half of 2022.

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

The reliability and security of our information and technology infrastructure, and our customer databases are crucial to maintain the service availability of banking applications and processes and to globally protect the HSBC brand. The proper functioning of our payment systems, financial controls, risk management framework, 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 unavailability or any material breach of data integrity, could cause serious damage to our ability to serve our clients as well as leading to breaching regulations under which we operate and causing long-term damage to our business. This could negatively impact the brand with a material adverse effect on our business, prospects, financial condition and results of operations. No noticeable incident or disruption has been reported for HSBC Continental Europe in 2019, 2020, 2021 and in the first half of 2022. HSBC is continuing to invest in strengthening the security of our technology infrastructure and the further alignment of IT systems across HSBC Continental Europe, ensuring appropriate control environment in IT perimeter.

Operational losses for Technology and Cyber Security risk in 2022 were zero in the first half of 2022.

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

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

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

To answer regulatory evolutions related to the implementation of new EBA guidelines on outsourcing, HSBC Continental Europe has continued to enhance in 2021 and 2022 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.

There were no significant events in the first six months of 2022.

Risks related to our governance and internal control

The delivery of HSBC Continental Europe's strategic actions is subject to execution risk which could impact the expected benefits of our strategic initiatives. Probability: Likely/Impact: High.

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

Within this framework, our strategy in Continental Europe is to focus primarily on clients that value our network, leveraging our strengths in transaction banking, trade, capital markets and financing. This is complemented by a targeted wealth and personal banking business.

HSBC Continental Europe continues to adapt its operating model, implementing a number of programmes in support of the development of the Group's Continental European hub based in Paris, while ensuring compliance with our regulatory requirements. Please refer to 'HSBC Bank plc's strategy' on page 4 and 'HSBC strategy implemented in Continental Europe on page 4. The development and implementation of HSBC Continental Europe's strategy requires difficult and complex judgements, including forecasts of economic conditions in Continental Europe but also in other parts of the world. Robust management of critical time-sensitive and resource intensive projects is required to effectively deliver HSBC Continental Europe's strategic priorities. The magnitude and complexity of the transformation underway does present heightened execution risk. The cumulative impact of the collective change initiatives within HSBC Continental Europe is significant and has direct implications on HSBC Continental Europe's employees. In addition, these strategic actions are being undertaken in an uncertain economic, market and regulatory context, which may result in volatility in financial results and necessary adaptation of strategy execution to take new environment into account.

HSBC Continental Europe could incorrectly identify the trends it seeks to leverage and the relevant factors in making decisions as to capital deployment and cost reduction. Key to achieving HSBC Continental Europe's strategy is to increase the cross-business and cross-border synergies between HSBC Group's different entities across the globe, while ensuring an efficient operating model across our Continental European operations.

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

HSBC Continental Europe's data management and data privacy controls must be sufficiently robust to support the increasing data volumes and evolving regulations. Probability: Likely/Impact: High.

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 serve customers more effectively and/or improve our product offering. This could have a material adverse effect on our business, prospects, financial results and firm reputation.

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

In addition, failure to comply with the EU General Data Protection Regulation ('GDPR') and Data Privacy requirements may result in regulatory sanctions and fines in addition to potential reputational impacts.

No significant data-related incident occurred in 2022.

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. The impact of data leakage or non respect of the legislation is changed to High.

Third parties may use HSBC Continental Europe as a conduit for illegal activities without its knowledge. Probability: Likely/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 European, 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 law n°2016-1691 of 9 December 2016 'Sapin II'. In addition to this, the AFA has been established to supervise French companies. HSBC Continental Europe was audited by the AFA between December 2020 and May 2021. The audit report published on 21 November by AFA concluded that the Bank has put in place an anti-corruption framework compliant with the obligations mentioned in II of the Article 17 of the 'Sapin II' law.

In recent years, we have experienced a substantial rise in the volume of new regulations impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into the bank's activities. In line with the Group's heightened standards and organisation, HSBC Continental Europe has continued to improve the Financial Crime Compliance and Regulatory Compliance framework. However, there can be no assurance that these will be completely effective.

HSBC Continental Europe continues to implement policies, procedures and controls in order to abide by the sanctions enacted against Russia, in the context of the Ukraine crisis, whilst abiding by the Group sanctions policy. The Russian sanctions are numerous and complex, with the European Union having enacted its seventh package of Russian sanctions on 22 July 2022. We are in dialogue with our regulators directly, and via industry bodies, such as the French Banking Federation, to ensure guidance is received, to help navigate our way through the complex implementation of the sanctions.

Moreover, in relevant situations, and where permitted by regulation, we may rely upon certain third parties to carry out certain Identification and 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 and tax 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 are analysed to detect signs of money laundering, terrorism financing tax avoidance, bribery and corruption, fraud and failure to comply with sanctions.

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 in 2021.

No significant incidents occurred in the first six months of 2022.

Risks related to our business

Risks concerning borrower credit quality are inherent in HSBC Continental Europe's businesses. Probability: Likely/ Impact: High.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties in derivative transactions are inherent in the businesses of HSBC Continental Europe. Adverse changes in the credit quality of our borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems could reduce the recoverability and value of our assets, and require an increase in our loan impairment charges.

The risk is that our assessment of the impact of the factors that we have identified may be inaccurate, or that we fail to identify relevant factors. HSBC Continental Europe's assessment of the creditworthiness of its counterparties may be inaccurate or incorrect. Any failure by HSBC Continental Europe to accurately estimate the ability of its counterparties to meet their obligations may have a material adverse effect on HSBC Continental Europe its prospects, financial condition and results of operations. The level of any material adverse effect will depend on the number of borrowers involved, the size of the exposures and the level of any inaccuracy of our estimations.

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

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.

The first half of 2022 have been marked by the start of the war between Russia and Ukraine. This has exacerbated some of the issues already triggered by the pandemic, and all those events have created a fairly uncertain macroeconomic environment, marked by inflation (particularly energy prices), higher interest rate pressures, supply chain disruptions (particularly around gas supply, and chip shortage particularly).

In this context, HSBC Continental Europe has been completing first and second order risk analysis. We have de-risked our first order risk, which was already at a low level prior to the crisis, and we have identified the sectors and individual names deemed more vulnerable from a second order risk perspective.

Our organisation continues to make use of our risk identification and portfolio management processes to identify and monitor the most vulnerable names

For Wealth and Personal Banking, the Russia-Ukraine war has had only a limited direct impact on the portfolio. In terms of indirect impacts from the general macroeconomic environment, this is also expected to be limited with only very modest amount of loans on variable rate terms at risk of interest rate increases. A stress on affordability has been also been undertaken and the impact of this is also considered limited.

The impact from Covid-19 on the retail portfolio was strongly mitigated by the support measures offered including the moratoria provided by HSBC to its customers with this representing EUR 536 million of exposure, or 2.4 per cent of the portfolio, as at June 2022. 99 per cent of these payment deferrals have now resumed and limited delinquency has been shown with 1.2 per cent currently having missed payments. The other main support measure has been the loan scheme guaranteed by the government; *Pret Garanti d'Etat ('PGE')*. These balances are modest in the retail portfolio. This scheme has been extended until the end of June 2022 however, demand in 2022 has remained low from Wealth and Personal Banking customers.

A specific monitoring was put in place to track the approval activity in terms of *PGE,* drawn loans, requests for moratoria. On top of our existing risk identification process, a specific monthly forum was organised to identify and discuss the most vulnerable clients to the pandemic, the ones subject to potential restructurings, and to cover the portfolio trends with regards to the *PGE* activity.

The Business Banking ('BB') portfolio in France has been identified as the most vulnerable segment. To monitor the risk of this SME BB population, our organisation has established a list of monitoring priority for clients representing the bulk of the SME book in France, based on multi-criteria risk identification factors. Priorities in risk monitoring (P1 major risk, P2 potential risk, P3 lower risk) have been determined based on certain criteria, and drive the frequency of contacts that the Relationship Manager should have with their clients.

An IFRS9 overlay related to the credit risk in the BB portfolio in France, and the estimation of the impacts in terms of ECL, have been performed in 3Q 2021 and is still prevailing.

We believe that the relative good performance of this portfolio of French SME clients at this point in the cycle remains fragile, and that the financial situation should deteriorate for some of these clients as and when they will start repaying their PGE – which is additional debt which will have to be repaid – and depending on the pace at which the French government will stop the different support measures. Repayment of those loans has started, and we expect to see extension requests in the current economic environment.

For details concerning RWAs as at 30 June 2022 – see table: Overview of risk weighted exposure amounts on page 46.

Change in expected credit losses and other credit impairment charges was nil, compared to a release of EUR 1 million in the first half of 2021.

HSBC Continental Europe is exposed to capacity and capability risk resulting from elevated attrition and talent retention challenges. Probability: Likely/Impact: High.

Efficient implementation and delivery of the ongoing HSBC Continental Europe transformation remains a key priority for the region, this heightens countries existing challenges to attract, retain and further develop suitable talent pipelines and population. The need to stay agile, continuously adapt to the hastily changing environment and skills requirements, to the new ways of working, future skills as well as the evolving regulatory landscape alongside with increased pressure resulting from the current geopolitical crisis is having noticeable impacts on workloads, engagement and wellbeing alongside with Covid-19 pandemic.

While HSBC Continental Europe's ability to execute planned restructuring has a clear dependency on capacity and capability, the failure of businesses and functions to be adequately and timely resourced would jeopardise its aptitude to efficiently implement required structural changes and achieve strategic targets. It would be key to continue to be able to attract, retain, develop and motivate employees, senior executive and key talents.

Capacity and capability challenges are called out on the back of elevated workload and attrition levels, combined with well-being concerns resulting from the various transformation activities managed at the same time across the region. The workload arising from the many evolving regulatory reform programmes and restructuring projects continues to place pressure on the workforce, faced retention challenges alongside with increased local competition over limited local talent pools often with specific skills and/or expertise as market economies have been reviving post Covid-19 pandemic are also heightening people risks. Post variable pay future leavers trends were monitored in order to timely remediate potential gaps, no adverse trends are flagged for now. However, it is noted that colleagues' responses to variable pay outcomes were broadly neutral to positive, but more negative on fixed pay increases, generally due to a combination of market gaps and rising inflation.

The impending concerns resulting from the war between Ukraine and Russia have proven to be difficult, actions to support employees and reduce stress levels as well as adverse psychological impacts are ongoing through local initiatives. Covid-19 impacts on the workforce capacity are perceived as stabilising, cases have markedly reduced over the past months but might increase again during the holiday season.

- Attrition has been on a downward trend throughout the pandemic period, however this trend is reversing and increases are noted in key markets as well as in specific business areas creating potential gaps. As at 31 May 2022, HSBC Continental Europe had a total of 7,412 employees, 6,286 employees in France and 1,126 in the branches. Overall voluntary attrition is slightly above its pre-pandemic levels, HSBC Continental Europe May 2022 year to date overall voluntary attrition is at 9.3 per cent and Senior manager year to date voluntary attrition at 3.4 per cent.
- HSBC Group has set itself clear and transparent gender equality targets on the proportion of women in senior executive positions. The initial target was 30 per cent of senior executives to be women by the end of 2020 rising to 35 per cent by 2025. At the end of May 22, women held 31 per cent of these posts. In addition, in Q4 2021, HSBC Continental Europe committed to gender parity on the Executive Committee from 2024.
- In the period from January to May 2022, there were 215 promotions in France of which 55 per cent were women. The proportion of the employees over 50 years old in HSBC Continental Europe stood at 33 per cent as at 30 Jun 2022 whilst the proportion of employees less than 30 years old has increased from 11.8 per cent in 2021 to 12 per cent in May 2022.

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.

In the early stage of Russia-Ukraine war, a list of Russian Nexus counterparties has been defined and a review has been performed on Eastern European Area as well and some sectors as Energy/Oil and Airlines industries. Stress testing was also a management tool used to revisit the HSBC Continental Europe portfolio. During the development of the conflict, de-risking of Russian nexus counterparties has been undertaken allowing to end up with no Category B exposure.

The risk management strongly focused on the collateral disputes and the failed payments with strong communication to senior Markets and Securities Services stakeholders.

As at 30 June 2022, Counterparty Risk RWAs were EUR 4.703 billion compared to EUR 4.434 billion as at 31 December 2021. See also RWAs as at 30 June 2022 – table: Overview of risk weighted exposure amounts on page 46 and table: Analysis of CCR exposure by approach on page 56.

HSBC Continental Europe is subject to financial and non-financial risks associated with Environmental, Social and Governance-related matters, such as climate change risk, nature-related risks and human rights issues. Probability: Very Likely/Impact: High.

ESG-related matters such as climate change, society's impact on nature and human rights violations bring risks to our business, our customers and wider society.

Climate change, through transitional and physical channels, could have both financial and non-financial impacts on HSBC either directly or indirectly through our customers.

Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes.

Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding. The focus on Climate & Environmental risks continue to increase in 2022 primarily as a result of the pace and volume of policy and regulatory changes, which impacts HSBC both directly and indirectly through our customers.

We currently expect that the following are the most likely ways in which climate risk may materialise for HSBC Continental Europe:

- transition and physical risk may impact our corporate customers, for example if regulatory, legislative or technological developments impact customers' business models resulting in financial difficulty for customers and/or stranded assets;
- residential real estate may be affected by changes to the climate and extreme weather events which could impact property values and the ability of borrowers to afford their mortgage payments;
- physical risk may impact HSBC Continental Europe's operations, for example if flooding or extreme weather events impacted our critical operations;
- regulatory compliance risk may result from the increasing pace, breadth and depth of regulatory expectations requiring implementation in short timeframes;
- conduct risks could develop associated with the increasing demand for 'green' products where there are differing and developing standards or taxonomies;
- reputational risks may result from our decisions on how we support our customers in high-emitting sectors, including our ability to reach our climate-related ambitions, targets and commitments.

We also face increased reputational, legal and regulatory risks as we make progress towards our net zero ambition, with stakeholders likely to place greater focus on our actions, such as the development of climate-related policies, our disclosures and financing and investment decisions relating to our ambition.

We will face additional risks if we are perceived to mislead stakeholders in respect of our climate strategy, the climate impact of a product or service, or the commitments of our customers.

In addition, there is increasing evidence that a number of nature-related risks beyond climate change – which include risks that can be represented more broadly by economic dependency on nature – can and will have significant economic impact. These risks arise when the provision of natural services such as water availability, air quality, and soil quality is compromised by overpopulation, urban development, natural habitat and ecosystem loss, and other environmental stresses beyond climate change. They can show themselves in a variety of ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both HSBC and its customers.

The key human rights risks that currently impact HSBC include discrimination, in particular with respect to our employees and our customers, and modern slavery in our supply chains and those of our customers. Failure to manage these risks may result in negative impacts on our people (both in terms of hiring and retention), our business and our reputation. Such failure could also lead to breaches of rapidly evolving legal and regulatory requirements and expectations and this could have reputational, legal and financial consequences for HSBC.

In respect of all ESG-related risks, we also need to ensure that our strategy and business model, including the products and services we provide to customers and non-financial risk management processes (including processes to measure and manage the various financial and non-financial risks the Group faces as a result of ESG-related matters) adapt to meet regulatory requirements and stakeholder and market expectations, which continue to evolve significantly and at pace. Achieving our strategy with respect to ESG matters, including any ESG-related ambitions, commitments and targets that we may set, will depend on a number of different factors outside of the Group's control, such as advancements in technologies and supportive public policies in the markets where we operate. If these external factors and other changes do not occur, or do not occur on a timely basis, the Group (including HSBC Continental Europe) may fail to achieve its ESG-related ambitions, commitments and targets.

In order to track and report on our progress against our ESG-related ambitions, commitments and targets, we rely on internal and, where appropriate and available, external data sources, guided by certain industry standards. While ESG-related reporting has improved over time, data remains of limited quality and consistency. Methodologies we have used may develop over time in line with market practice, regulation and/or developments in science, where applicable. Any such developments in methodologies, and changes in the availability and quality of data over time could result in revisions to reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on-year. This could also result in the Group having to re-evaluate its progress towards its ESG-related ambitions, commitments and targets in the future and this could result in reputational, legal and regulatory risks.

If any of the above risks materialise, this could have financial and non-financial impacts for HSBC Continental Europe which could, in turn, have a material adverse effect on our business, financial condition, results of operations, reputation, prospects and strategy.

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

Reputational risk has increased in the context of HSBC Continental Europe business model reshaping: The path of transformation and the intense activity linked to a number of strategic projects managed concurrently have attracted media attention, most notably the sale of the retail operations in France.

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.

In addition, during the first half of 2022, reputational risk increased in view of the crisis in Ukraine and the European sanctions implemented in the banking sector. HSBC continental Europe is committed to ensuring full compliance with the sanctions enacted against Russia, however, the regulations are complex and constantly evolving, this increases the regulatory risk posed to an international group, such as HSBC.

HSBC Continental Europe has not experienced any incidents that have impacted the reputation of the Bank in the first six months of 2022.

Non-Financial risks are inherent in HSBC Continental Europe's business, including the risk of fraudulent activity Probability: Likely/Impact: Medium.

HSBC Continental Europe are exposed to many types of non-financial risks that are inherent in banking operations. Non-financial risk can be defined as the risk to HSBC Continental Europe of not achieving its strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events. It includes; fraudulent and other criminal activities (both internal and external), breakdowns in processes or procedures, breaches of regulations or law, financial reporting and tax errors, external events and systems failure or non-availability. These risks are also present when HSBC Continental Europe rely on outside suppliers or vendors to provide services to us and our customers.

In particular, fraudsters may target any of HSBC Continental Europe's products, services and delivery channels, including lending, internet banking, payments, bank accounts and cards. This may result in financial loss to HSBC Continental Europe and/or its customers, an adverse customer experience, reputational damage and potential litigation, regulatory proceeding, administrative action or other adversarial proceeding in any jurisdiction in which HSBC Continental Europe operate, depending on the circumstances of the event.

These non-financial risks could have a material adverse effect on HSBC Continental Europe's business, financial condition, results of operations, prospects, strategy and reputation.

The main fraud loss typology in HSBC Continental Europe continues to remain card fraud, followed by payment fraud and WPB lending fraud. Losses in wholesale banking are quite immaterial and mainly represent card fraud cases. In terms of countries main part of losses are attributable to France. Scams continue to remain topical across all lines of businesses.

Authorised push payment scams in forms of business email compromise and payment redirections dominate across wholesale banking clients. Investment, Advance fee scam is the most common type being used by the fraudsters against retail customers. There is also an increased risk of internal fraud due to the sale of the French and Greek retail businesses.

The economic difficulties due to the Covid-19 pandemic coupled with inflationary pressures across both developed and emerging markets are expected to further strain businesses or unravel long perpetuated fraud schemes. Measures to contain inflation via interest rates hikes is likely to exacerbate this risk with customers under exceptional pressure struggling to obtain or maintain access to credit and mitigate their losses. Customers could misstate their positions or undertake fictitious transactions to continue trading. Based on historical observations, the risk of fraud losses tends to increase following periods of economic downturns, with a lag of six to 12 months. A comprehensive global programme of work was initiated in 2021 to manage the risk covering processes, people, technology and target operating model review which will be implemented by 2022 and further embedded in 2023. Fraud losses in HSBC Continental Europe have remained low over the past years.

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 risks are those that may impact on the financial results, reputation or business model of the bank. Emerging risks are those that have large unknown components and may form beyond a two year horizon. 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.

HSBC Continental Europe's suite of top and emerging risks is subject to regular review by senior governance forums. We continue to monitor closely the identified risks and ensure mitigating actions are in place, as required.

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

Risk		Description
Externally driven		
Geopolitical and Macroeconomic risks	▲	HSBC Continental Europe continually assesses the impact of macro-economic and geopolitical events on its business and exposures and take steps to mitigate them, where required and possible, to help ensure that HSBC Continental Europe remains within its risk appetite. Heightened geopolitical tensions, alongside other factors, have disrupted supply chains globally and inflation and rising interest rates are likely to result in a Global slowdown which will affect the HSBC Continental Europe portfolio.
Technology and Cyber Security risk	▲	HSBC Continental Europe is enabled by technology and is exposed to the risk of service disruption through technology failures or malicious activity by insider or external threats. The recent geopolitical scenarios have created the need for enhanced monitoring. HSBC Continental Europe operates a continuous improvement programme to enhance our technology operations and to counter a hostile and fast evolving cyber threat environment.
Regulatory Engagement risk	▲	The first half of 2022 has seen increased regulatory focus on the impact of the macroeconomic and geopolitical environment on all risk types, HSBC strategy execution in continental Europe, conservative capital and liquidity management, internal governance and risk management. Latest supervision priorities also focuses on ESG matters, and assessing how digital and technology changes impact financial institutions.
Financial Crime risk	▲	HSBC Continental Europe continues to support our customers against a backdrop of complex geopolitical, socioeconomic and technological challenges, not least the war in Ukraine. HSBC is monitoring the direct and indirect impacts on the Group, and using its sanctions compliance capabilities to respond to the new sanctions regulations, noting the challenges that arise in implementing the complex, novel and ambiguous aspects of certain of the sanctions.
Environmental, social and governance (ESG) risks	▲	We are exposed to ESG risks relating to climate change, nature and human rights. This risk has increased owing to the pace and volume of regulatory developments impacting HSBC Continental Europe and stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. If we fail to meet evolving regulatory and stakeholder expectations on ESG risk management as a result of any event, behaviour, action or inaction this may result in financial and non-financial risks for HSBC potentially causing stakeholders to form a negative view of the Group.
Digitalisation and technological advances	▶	HSBC Continental Europe monitors advances in technology to understand how changes may impact our customers and business. HSBC Continental Europe closely monitors and assess the potential for consequent financial crime and the resulting impact on payment transparency and architecture.
Internally driven		
Risks arising from the receipt of services from third parties	▲	We procure services and goods from a range of third parties. It is critical that we have appropriate risk management policies, processes and practices over the selection and governance of third parties and their supply network, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations.
Execution risks	▶	Failure to effectively prioritise, manage and /or deliver strategic change impacts our ability to grow, strengthen our capabilities, digitise at scale, and play our part in the transition to a more sustainable world. Given the scale, complexity and pace of strategic change at HSBC Continental Europe, we must monitor, manage and oversee change execution risk to ensure our change portfolios and initiatives continue to deliver the right outcomes for our customers, people, investors and communities.
Model risk	▶	HSBC Continental Europe continues to strengthen its oversight of models and model risk controls. HSBC Continental Europe is redeveloping its capital models to reflect the evolving regulatory requirements, and in some cases the potential effects from the Covid-19 pandemic. Ibor models impacted by the switch to new alternative risk-free rates are also being redeveloped. HSBC Continental Europe enhanced the oversight of models used in financial reporting processes in light of the potential impacts from the uncertain external environment.
Data risk	▲	We use data to serve our customers and run our internal operations, often in real-time within digital journeys and processes. If this data is not accurate and timely, our ability to serve customers, operate with resilience, or meet regulatory requirements could be impacted. We must ensure the confidentiality of data and comply with the growing number of laws and regulations governing data privacy and the cross-border movement of data. Heightened regulatory scrutiny and concerns being raised regarding IT risk and control management. A remediation programme is being put in place.

Risk		Description
Internally driven		
People Risk	▶	HSBC Continental Europe's workforce capacity and capability requirements are monitored in line with the published growth and transformation strategies. Measures to support the people in the current complex context combined with Covid-19 pandemic are in place, including workforce integration back into the workplace as government restrictions ease. People risks that may arise due to business transformation are closely monitored to help manage business change sensitively and support employees.
Financial Reporting Risk	▶	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 judgments and 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. HSBC Continental Europe continues to ensure appropriate mitigation of both the risk of the incorrect or untimely reporting of financial information, through policies, procedures and controls governing the financial reporting control environment, including those designed to address the heightened financial reporting complexity linked to the ongoing business transformation.

▲ Risk has heightened during first half of 2022

▶ Risk remains at the same level during the first half of 2022

▼ Risk has decreased during first half of 2022

Managing risks

We recognise that the primary role of risk management is to protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model.

We are focused upon implementation of our business strategy for which the active management of execution risks is essential.

We will also perform a periodic risk assessment, with regard to our current strategy, in order to identify our key employees in order to maintain our operations at the expected levels.

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

The framework fosters continual monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to identifying, evaluating and managing the risks we accept and incur in our activities.

Our Risk Appetite

We recognise the importance of a strong risk culture, which refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate-related risks, both physical and transition, and continue to include the consideration of these into how we manage and oversee risks internally and with our customers.

The following principles guide our overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

- Strong capital position, defined by regulatory and internal ratios.
- Liquidity and funding management for each Group entity on a stand-alone basis.

Operating model

- Returns generated in line with risks taken.
- Sustainable earnings and delivering consistent returns for shareholders.

Business practice

- We have zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage to the Group has not been considered and/or mitigated.
- We have no appetite for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by a member of staff or by any Group business.

Enterprise-wide application

HSBC Continental Europe's risk appetite includes consideration of financial and non financial risks and is expressed in both quantitative and qualitative terms.

The Risk Appetite Statement is approved by the HSBC Continental Europe Board following advice from the Risk Committee, and is a key component of the risk management framework.

Setting out HSBC Continental Europe's risk appetite ensures that planned business activities provide an appropriate balance of return for the risk being taken, and that a suitable level of risk for our strategy is defined. In this way, risk appetite permits the financial planning process and helps senior management of the bank to allocate capital to business activities, services and products.

The business performance against these risk appetite metrics is reviewed in the Risk Management Meeting and quarterly in the Risk Committee and by the Board.

Details of metrics that have fallen outside of the appetite/tolerance are provided, along with remediating actions. This reporting allows risks to be promptly identified and mitigated.

Key Developments in the first half of 2022

HSBC Continental Europe continued to undertake a number of initiatives to enhance our approach to the management of risk and enhance the control environment, taken into account the evolution of geopolitical environment.

These included:

- Two new Committees have been set up: one dedicated to Third party providers to enhance monitoring of our providers and another one related to Climate and ESG risks, to ensure embedding of climate and ESG risk culture through the bank and ensure monitoring on this topic;
- We continued to focus on HSBC Third Party Risk Management Framework and Cloud framework with enhanced monitoring on concentration risk in our Risk appetite;
- Climate risk has been introduced in our Risk Management framework to consider climate-related and environmental risks as drivers of existing risk categories;
- As part of the HSBC Group Non-Financial Risk Optimisation Programme launched in 2019, risk taxonomy and control library continue to be rationalised with a smaller number of risk types, along with a clear set of key controls to be applied for each risk, aiming to further strengthen and simplify Non-financial risk monitoring and management;
- The implementation of Risks and Controls Assessment at HSBC Continental Europe level combining France and its European branches per business/function is now live and allows a clear view of Risks and Controls on all HSBC Continental Europe legal perimeter.
- Our risk management practice has continued to be strengthened with the implementation within the second line of defence of a local central HSBC Continental Europe permanent control team, performing independent reviews focused on Medium and Low risks and complementing existing Group/ Regional Assurance teams activities. This approach now ensures a full coverage of all non-financial risks by independent controls. The monitoring plan (permanent control plan) will be carried out over 2022.

With respect to the Russia-Ukraine war:

- Wealth and Personal Banking has assessed the limited direct exposure, cross referred to sanctions lists, downgraded or placed on watch lists and continues to monitor. Additionally, new lending requests are escalated to the credit risk department and the indirect impact has been analysed, through a stress on affordability, with limited impact projected.
- Market risk: exposure and limits linked to Russian underlyings have been reduced.
- Wholesale Credit Risk: Since the inception of the conflict, specific referral process and monitoring of our exposure have been put in place. This has resulted in our residual exposure being limited at the present time. Whilst the remaining positions continue to be closely monitored, we have shifted our focus on second and third order risks, which have been subject to various analysis/portfolio reviews, with extensive use of our Worry Watch Monitor framework to identify and monitor the higher risk exposures. This is in the context of clients having business interests in Russia in terms of sales and supply, impact of high energy prices, inflationary pressures, supply chain disruptions and higher rate environment.
- Counterparty credit risk: the category B ('Cat B') exposure of the Russia linked clients has been closely monitored and is limited.

Areas of special interest

Geopolitical and macroeconomic risk

HSBC Continental Europe's operations and portfolios are exposed to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets.

Heightened geopolitical tensions, alongside other factors, have disrupted supply chains globally and created potential ramifications for the HSBC Group. The Russian invasion of Ukraine has led to elevated geopolitical instability and resulted in the US, UK and EU, as well as other countries, imposing significant sanctions and other trade restrictions against Russia, numerous government officials and individuals, and Russian companies and financial institutions, some of which are unprecedented in their nature.

Russia has implemented certain countermeasures in response.

We are monitoring the direct and indirect impacts of the conflict on HSBC Continental Europe, and continue to respond to new sanctions regulations, noting the challenges that arise in implementing the complex, novel and ambiguous aspects of certain of these sanctions.

The repercussions from the Russia-Ukraine war, alongside the economic impacts that continue to result from Covid-19, have pushed up the prices of a broad range of commodities, with the resulting increase in inflation creating further challenges for monetary authorities and our customers. Central banks in the European region have stepped up the pace of policy tightening in 2022 to help ease inflationary pressures, but may need to calibrate this pace depending on the evolution of the economic growth outlook. There is a risk that the combination of excessive tightening and worse than anticipated economic effects from the Russia-Ukraine war, including as a result of the extensive sanctions, trade restrictions and countermeasures that have been and may in the future be implemented, precipitates a recession in parts of the European economy. The European Central Bank announced on 21 July 2022 a bigger-than-expected rate hike of 50 basis points of its policy rates (the first rate rise since 2011), contradicting the guidance provided in June 2022 (signalling a rate hike of 25 basis points). The ECB justified this decision by the latest upside surprises on inflation, but also by the introduction a of new tool (called Transmission Protection Instrument or 'TPI') to prevent the risk of unwarranted tightening in financial conditions for some specific countries and so protect the monetary transmission channel. HSBC Continental Europe continues to monitor its risk profile closely in the context of uncertainty over monetary policy.

Higher inflationary concerns in the region could also have an impact on ECL going forward. The global economic recovery in 2021 eased financial difficulties for some of HSBC Continental Europe's customers, which contributed to a reduction in ECL charges.

In the first half of 2022 HSBC Continental Europe continued to carry out enhanced monitoring of model outputs and use of model overlays, including management judgemental adjustments based on the expert judgement of senior credit risk managers. Inflation has been considered both directly in certain models, and assessed via adjustments where not directly considered. Some of these adjustments may persist going forward in the context of continuing economic uncertainty resulting from heightened inflation.

The Russia-Ukraine war and the Covid-19 pandemic have brought supply chain issues into focus, with shortages appearing across the regions and products throughout 2020 and 2021, and it is not expected that these issues will ease significantly before the second half of 2022.

Strains in the relationship between the UK and the EU, which to a certain extent have had less of a focus in light of the Russian invasion of Ukraine, have come back to the fore through a number of potential areas of tension, notably the Northern Ireland Protocol, with possible impacts for the operation of the EU-UK Trade and Cooperation Agreement ('TCA').

In June 2022, the UK government published proposed legislation which seeks to amend the Protocol in a number of respects. The terms of such proposal may be subject to legal challenge by the EU and any such dispute, together with any retaliatory action that the EU may take, could further complicate the terms of trade between the UK and the EU and potentially preventing progress in other areas such as financial services.

Risks related to Covid-19

Despite the successful roll-out of vaccines around the world, the Covid-19 pandemic and its effect on the global economy have continued to impact HSBC Continental Europe's customers and organisation. The emergence of new variants in 2022 has demonstrated the continued risk new variants pose. The global vaccination roll-out has helped reduce the social and economic impact of the Covid-19 pandemic, although there has been significant divergence in the speed at which vaccines have been deployed around the world. Countries continue to differ in their approach to restrictions on activity and travel, and if these differences persist in future pandemic waves, this could prolong or worsen supply chain and international travel disruptions. Most notably, China's government-imposed lockdown restrictions in major Chinese cities have impacted China's economy, Asia tourism and global supply chains adversely.

The impact of the pandemic on the long-term prospects of businesses in the most vulnerable sectors of the economy – such as retail, hospitality, travel and commercial real estate – remains uncertain and may lead to credit losses on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of stress, fraudulent activity is often more prevalent, leading to potentially significant credit or operational losses. To help mitigate this risk, model outputs and management adjustments are closely monitored and independently reviewed at the Group and country level for reliability and appropriateness. Governments and central banks' extensive measures to support their local populations are becoming more targeted in 2022. Central banks in major markets – with the exception of China – are raising interest rates, with the speed of such tightening varying across jurisdictions based on specific macroeconomic conditions. Policy tightening in many markets is now also underway in order to counteract rising inflation and the risk of capital outflows. Governments are also expected make fiscal support more targeted as the appetite for broad lockdowns and public health restrictions decreases. Government debt has risen in most advanced economies, and is expected to remain high into the medium term. High government debt burdens have raised fiscal vulnerabilities, increasing the sensitivity of debt service costs to interest rate increases and potentially reducing the fiscal space available to address future economic downturns.

See also Geopolitical and Macro-Economic Risk in Areas of Special Interest.

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

Climate-related risks

The pace and volume of policy and regulatory developments focusing on climate and environmental risks management, disclosures, and stress testing and scenario analysis continue to increase in 2022.

The Russian invasion of Ukraine continues to significantly impact the global commodity markets, necessitating actions in the short term around energy security.

While these actions may impact the near-term transition path for HSBC and our customers, we remain committed to our climate strategy to align our own operations and supply chain to net zero by 2030, and the financed emissions from our portfolio of customers to net zero by 2050.

As announced in March 2022, we intend to publish a climate transition plan in 2023, and have committed to a science-aligned phase-down of fossil fuel finance, and a review of our wider financing and investment policies critical to achieving net zero by 2050.

Our most material risks in terms of managing climate risk relate to corporate and retail client financing within our banking portfolio. We continue to monitor the impacts of climate and environmental risks and further embed our approach across our key risk areas and business lines.

We have refreshed our credit risk policy to further embed climate risk considerations into our corporate credit decisions for new money requests and delivered guidance on the Oil and Gas, Power and Utilities and Metals and Mining sectors. We continue to develop guidance for our other higher transition risk sectors. To help with risk assessment, our developing Transition and Physical Risk Questionnaire is currently live across 10 sectors and the majority of the countries within HSBC Continental Europe to determine the level of transition risk and physical risk exposure which may affect credit decisioning.

In addition to financial risks arising in our corporate and retail banking portfolios, we also face increased reputational, legal and regulatory risks as we make progress towards our net zero ambition, with stakeholders likely to place greater focus on our actions, such as the development of climate-related policies, our disclosures and financing and investment decisions relating to our ambition. We will face additional risks if we are perceived to mislead stakeholders in respect of our climate strategy, the climate impact of a product or service, or the commitments of our customers.

In response to this risk, we have published guidance to increase awareness of greenwashing risk across the first and second lines of defence and established a cross-line of defence panel of internal experts to provide greenwashing risk advice to existing governance forums.

We continued to develop our climate stress testing and scenario capabilities, including model development, and participated in the ECB climate stress tests. These are being used to further improve our understanding of our risk exposures for use in risk management and business decision making.

While climate risk reporting, in particular reporting on financed emissions has improved over time, thanks to the enhancement of our climate risk framework, data quality and consistency continues to be a key dependency as we develop our risk appetite and metrics throughout the remainder of 2022.

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 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 2022. 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 2021*.

Summary of credit risk

The following tables detail the impairment requirements by type of product and counterparty.

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, and the geopolitical context. During the first half of 2022, the weighting ascribed to the consensus Central scenario was reduced and that of the Downside scenarios increased to take into account the recent events.

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

	At 30 Jun 2022		At 31 Dec 2021	
	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	**58,434**	**(717)**	60,407	(795)
– personal[2]	**23,025**	**(109)**	23,238	(162)
– corporate and commercial	**31,493**	**(603)**	33,042	(631)
– non-bank financial institutions	**3,916**	**(5)**	4,127	(2)
Loans and advances to banks at amortised cost	**5,985**	**—**	6,833	(1)
Other financial assets measured at amortised cost	**77,125**	**—**	71,882	—
– cash and balances at central banks	**39,619**	**—**	38,063	—
– items in the course of collection from other banks	**855**	**—**	156	—
– reverse repurchase agreements – non trading	**13,989**	**—**	20,487	—
– financial investments[3]	**7**	**—**	7	—
– prepayments, accrued income and other assets[4]	**22,655**	**—**	13,169	—
Assets held for sale[5]	**1,899**	**(63)**	—	—
Total gross carrying amount on balance sheet	**143,443**	**(780)**	139,122	(796)
Loans and other credit-related commitments	**99,955**	**(13)**	87,630	(15)
– personal	**1,222**	**—**	1,325	—
– corporate and commercial	**43,326**	**(12)**	39,803	(12)
– financial	**55,407**	**(1)**	46,502	(3)
Financial guarantees[6]	**875**	**(9)**	9,614	(11)
– personal	**22**	**—**	24	—
– corporate and commercial	**412**	**(9)**	9,102	(11)
– financial	**441**	**—**	488	—
Total nominal amount off-balance sheet[7]	**100,830**	**(22)**	97,244	(26)
Total nominal amount on-balance sheet and off-balance sheet	**244,273**	**(802)**	236,366	(822)

	Fair value	Memorandum allowance for ECL[8]	Fair value	Memorandum allowance for ECL[8]
	€m	€m	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**15,272**	**(10)**	16,071	(6)

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 17,966 million guaranteed by Crédit Logement as at 30 June 2022 (31 December 2021: EUR 17,573 million).*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 64 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 64 includes both financial and non-financial assets.*
5 *Includes balances of Greece branch reclassified as held for sale from: Cash and balances at central banks EUR 1.4 billion and Loans and advances to banks and customers EUR 0.4 billion.*
6 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 is not applied.*
7 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
8 *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 2022

	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	45,389	11,827	1,215	3	58,434	(56)	(102)	(557)	(2)	(717)	0.1	0.9	45.8	66.7	1.2
– personal[3]	21,269	1,470	286	–	23,025	(12)	(13)	(84)	–	(109)	0.1	0.9	29.4	–	0.5
– corporate and commercial	20,449	10,113	928	3	31,493	(42)	(86)	(473)	(2)	(603)	0.2	0.9	51.0	66.7	1.9
– non-bank financial institutions	3,671	244	1	–	3,916	(2)	(3)	–	–	(5)	0.1	1.2	–	–	0.1
Loans and advances to banks at amortised cost	5,926	59	–	–	5,985	–	–	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	77,090	33	2	–	77,125	–	–	–	–	–	–	–	–	–	–
Assets held for sale	1,742	47	110	–	1,899	(1)	(4)	(58)	–	(63)	–	8.5	52.7	–	3.3
Loan and other credit-related commitments	98,523	1,398	34	–	99,955	(4)	(5)	(4)	–	(13)	–	0.4	11.8	–	–
– personal	1,206	15	1	–	1,222	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	42,086	1,208	32	–	43,326	(4)	(4)	(4)	–	(12)	–	0.3	12.5	–	–
– financial	55,231	175	1	–	55,407	–	(1)	–	–	(1)	–	0.6	–	–	–
Financial guarantees[4]	813	50	12	–	875	(1)	(7)	(1)	–	(9)	0.1	14.0	8.3	–	1.0
– personal	21	–	1	–	22	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	351	50	11	–	412	(1)	(7)	(1)	–	(9)	0.3	14.0	9.1	–	2.2
– financial	441	–	–	–	441	–	–	–	–	–	–	–	–	–	–
At 30 Jun 2022	**229,483**	**13,414**	**1,373**	**3**	**244,273**	**(62)**	**(118)**	**(620)**	**(2)**	**(802)**	**–**	**0.9**	**45.2**	**66.7**	**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 17,966 million guaranteed by* Crédit Logement *as at 30 June 2022.*
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 2022

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*of which:*	*of which:*	Stage 2	*of which:*	*of which:*	Stage 2	*of which:*	*of which:*
		1 to 29 DPD[1]	*30 and > DPD[1]*		*1 to 29 DPD[1]*	*30 and > DPD[1]*		*1 to 29 DPD[1]*	*30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	11,827	*55*	*455*	(102)	–	–	0.9	–	–
– personal	1,470	*19*	*47*	(13)	–	–	0.9	–	–
– corporate and commercial	10,113	*36*	*325*	(86)	–	–	0.9	–	–
– non-bank financial institutions	244	–	*83*	(3)	–	–	1.2	–	–
Loans and advances to banks at amortised cost	59	–	*8*	–	–	–	–	–	–
Other financial assets measured at amortised cost	33	–	–	–	–	–	–	–	–
Assets held for sale	47	*4*	*4*	(4)		*(2)*	8.5	–	*(50.0)*

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 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	50,604	8,510	1,291	2	60,407	(46)	(97)	(650)	(2)	(795)	0.1	1.1	50.3	100.0	1.3
– personal[3]	22,244	622	372	—	23,238	(12)	(14)	(136)	—	(162)	0.1	2.3	36.6	—	0.7
– corporate and commercial[5]	24,278	7,843	919	2	33,042	(32)	(83)	(514)	(2)	(631)	0.1	1.1	55.9	100.0	1.9
– non-bank financial institutions	4,082	45	—	—	4,127	(2)	—	—	—	(2)	—	—	—	—	—
Loans and advances to banks at amortised cost	6,805	28	—	—	6,833	(1)	—	—	—	(1)	—	—	—	—	—
Other financial assets measured at amortised cost	71,853	28	1	—	71,882	—	—	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	85,839	1,738	53	—	87,630	(5)	(5)	(5)	—	(15)	—	0.3	9.4	—	—
– personal	1,300	24	1	—	1,325	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	38,161	1,591	51	—	39,803	(4)	(3)	(5)	—	(12)	—	0.2	9.8	—	—
– financial	46,378	123	1	—	46,502	(1)	(2)	—	—	(3)	—	1.6	—	—	—
Financial guarantees[4]	9,552	41	21	—	9,614	(2)	(7)	(2)	—	(11)	—	17.1	9.5	—	0.1
– personal	23	—	1	—	24	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	9,041	41	20	—	9,102	(2)	(7)	(2)	—	(11)	—	17.1	10.0	—	0.1
– financial	488	—	—	—	488	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2021	224,653	10,345	1,366	2	236,366	(54)	(109)	(657)	(2)	(822)	—	1.1	48.1	100.0	0.3

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *Purchased or originated credit-impaired ('POCI').*
3 *Of which EUR 17,573 million guaranteed by* Crédit Logement *as at 31 Dec 2021.*
4 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
5 *The classification of gross carrying/nominal amount by stage as at 31 December 2021 was re-presented to reflect the transfer from stage 1 to stage 2 of EUR 3.7 billion in balances, following the application of post-model adjustments.*

Stage 2 days past due analysis at 31 December 2021

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and >*	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[2]	8,510	32	262	(97)	—	—	1.1	—	—
– personal	622	27	20	(14)	—	—	2.3	—	—
– corporate and commercial[2]	7,843	5	231	(83)	—	—	1.1	—	—
– non-bank financial institutions	45	—	11	—	—	—	—	—	—
Loans and advances to banks at amortised cost	28	25	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	28	—	—	—	—	—	—	—	—

1 *Days past due ('DPD'). Up-to-date accounts in stage 2 are not shown in amounts presented above.*
2 *The classification of gross carrying/nominal amount by stage as at 31 December 2021 was re-presented to reflect the transfer from stage 1 to stage 2 of EUR 3.7 billion in balances, following the application of post-model adjustments.*

Stage 2 Decomposition at 30 June 2022

The following disclosure presents the stage 2 decomposition of gross carrying amount and allowances for ECL for loans and advances to customers. The table below discloses the reason why an exposure moved into stage 2 originally, and is therefore presented as a significant increase in credit risk since origination.

The Quantitative classification shows when the relevant reporting date PD measure exceeds defined quantitative thresholds for retail and wholesale exposures, as set out in Note 1.2 'Summary of significant accounting policies', on page 182 of the *Universal Registration Document 2021*.

The Qualitative classification primarily accounts for CRR deterioration, watch & worry and retail management judgemental adjustments.

For further details on our approach to the assessment of significant increase in credit risk, see Note 1.2 'Summary of significant accounting policies' on page 182 of the *Universal Registration Document 2021*.

Stage 2 Decomposition at 30 June 2022

	Gross carrying value				**Provision for ECL**				**ECL Coverage % Total**
Loans and advances to customers	**Personal**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	**Personal**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**%**
Quantitative[1]	**411**	**5,870**	**103**	**6,384**	**(13)**	**(20)**	**(1)**	**(34)**	**0.5**
Qualitative	**1,012**	**3,918**	**58**	**4,988**	**—**	**(66)**	**(2)**	**(68)**	**1.4**
30 days past due backstop	**47**	**325**	**83**	**455**	**—**	**—**	**—**	**—**	**—**
Total stage 2	**1,470**	**10,113**	**244**	**11,827**	**(13)**	**(86)**	**(3)**	**(102)**	**0.9**

1 *Quantitative triggers includes 'one-month lag' and 'other reconciling amounts'.*

Stage 2 Decomposition at 31 December 2021

Loans and advances to customers	Gross carrying value				Provision for ECL				
	Personal	Corporate and commercial[2]	Non-bank financial institutions	Total[2]	Personal	Corporate and commercial	Non-bank financial institutions	Total	ECL Coverage % Total
	€m	€m	€m	€m	€m	€m	€m	€m	%
Quantitative[1]	572	4,730	28	5,330	(12)	(19)	—	(31)	0.6
Qualitative	30	2,884	6	2,920	(2)	(64)	—	(66)	2.3
30 days past due backstop	20	229	11	260	—	—	—	—	—
Total stage 2	622	7,843	45	8,510	(14)	(83)	—	(97)	1.1

1 *Quantitative triggers includes 'one-month lag' and 'other reconciling amounts'.*
2 *The classification of gross carrying/nominal amount by stage as at 31 December 2021 was re-presented to reflect the transfer from stage 1 to stage 2 of EUR 3.7 billion in balances, following the application of post-model adjustments.*

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
1 Jan 2022[2]	**118,330**	**(53)**	**10,314**	**(110)**	**1,366**	**(657)**	**2**	**(2)**	**130,012**	**(822)**
Transfers of financial instruments	**(9,015)**	**(10)**	**8,910**	**10**	**105**	**—**	**—**	**—**	**—**	**—**
– transfers from stage 1 to stage 2	**(10,732)**	**5**	**10,732**	**(5)**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**1,758**	**(14)**	**(1,758)**	**14**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers to stage 3	**(72)**	**—**	**(95)**	**2**	**167**	**(2)**	**—**	**—**	**—**	**—**
– transfers from stage 3	**31**	**(1)**	**31**	**(1)**	**(62)**	**2**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**10**	**—**	**(6)**	**—**	**—**	**—**	**—**	**—**	**4**
New financial assets originated or purchased	**20,190**	**(6)**	**—**	**—**	**—**	**—**	**1**	**(1)**	**20,191**	**(7)**
Asset derecognised (including final repayments)	**(5,557)**	**1**	**(842)**	**6**	**(128)**	**21**	**—**	**—**	**(6,527)**	**28**
Changes to risk parameters – further lending/repayments	**(18,306)**	**6**	**(1,299)**	**—**	**58**	**37**	**(1)**	**1**	**(19,548)**	**44**
Changes to risk parameters – credit quality	**—**	**(9)**	**—**	**(20)**	**—**	**(45)**	**—**	**—**	**—**	**(74)**
Changes to model used for ECL calculation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Assets written off	**—**	**—**	**—**	**—**	**(19)**	**19**	**—**	**—**	**(19)**	**19**
Credit-related modifications that resulted in derecognition	**—**	**—**	**—**	**—**	**(1)**	**1**	**—**	**—**	**(1)**	**1**
Foreign exchange	**15**	**(1)**	**(4)**	**—**	**(7)**	**1**	**—**	**—**	**4**	**—**
Others	**(183)**	**—**	**(2)**	**1**	**—**	**—**	**—**	**—**	**(185)**	**1**
Assets held for sale	**(451)**	**1**	**(50)**	**4**	**(114)**	**58**	**—**	**—**	**(615)**	**63**
At 30 Jun 2022	**105,023**	**(61)**	**17,027**	**(115)**	**1,260**	**(565)**	**2**	**(2)**	**123,312**	**(743)**
ECL release/(charge) for the period		**2**		**(20)**		**13**		**—**		**(5)**
Add: Recoveries										**2**
Add/(less): Others										**5**
Total ECL release/(charge) for the period										**2**

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

	At 30 Jun 2022		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	**123,312**	**(743)**	**2**
Other financial assets measured at amortised cost	**77,125**	**—**	**—**
Assets held for sale	**1,899**	**(63)**	**—**
Non-trading reverse purchase agreement commitments	**41,937**	**—**	**—**
Performance and other guarantees not considered for IFRS 9			**3**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	**244,273**	**(806)**	**5**
Debt instruments measured at FVOCI	**15,272**	**(10)**	**(5)**
Total allowance for ECL/total income statement ECL charge for the period	**259,545**	**(816)**	**—**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *The classification of gross carrying/nominal amount by stage as at 31 December 2021 was re-presented to reflect the transfer from stage 1 to stage 2 of EUR 3.7 billion in balances, following the application of post-model adjustments.*

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	(4,559)	(38)	4,389	41	170	(3)	—	—	—	—
– transfers from stage 1 to stage 2	(8,370)	8	8,370	(8)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	3,842	(44)	(3,842)	44	—	—	—	—	—	—
– transfers to stage 3	(83)	—	(214)	7	297	(7)	—	—	—	—
– transfers from stage 3	52	(2)	75	(2)	(127)	4	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	24	—	(18)	—	(3)	—	—	—	3
New financial assets originated or purchased	34,508	(22)	—	—	—	—	—	—	34,508	(22)
Asset derecognised (including final repayments)	(11,587)	3	(826)	17	(239)	104	(1)	1	(12,653)	125
Changes to risk parameters – further lending/repayments	(3,966)	19	(3,733)	32	78	48	(33)	3	(7,654)	102
Changes to risk parameters – credit quality	—	3	—	(53)	—	(212)	—	—	—	(262)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(76)	76	(6)	6	(82)	82
Credit-related modifications that resulted in derecognition	—	—	—	—	—	—	—	—	—	—
Foreign exchange	62	—	4	—	(2)	—	—	—	64	—
Others	39	—	(2)	1	—	—	—	—	37	1
At 31 Dec 2021	118,330	(53)	10,314	(110)	1,366	(657)	2	(2)	130,012	(822)
ECL release/(charge) for the period		27		(22)		(63)		4		(54)
Add: Recoveries										2
Add/(less): Others										1
Total ECL release/(charge) for the period										(51)

	At 31 Dec 2021		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	130,012	(822)	(51)
Other financial assets measured at amortised cost	71,882	—	—
Non-trading reverse purchase agreement commitments	34,472	—	—
Performance and other guarantees not considered for IFRS 9			17
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	236,366	(822)	(34)
Debt instruments measured at FVOCI	16,071	(6)	1
Total allowance for ECL/total income statement ECL charge for the period	252,437	(828)	(33)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *The classification of gross carrying/nominal amount by stage as at 31 December 2021 was re-presented to reflect the transfer from stage 1 to stage 2 of EUR 3.7 billion in balances, following the application of post-model adjustments.*

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 143 of the *Universal Registration Document* 2021.

Regulatory developments

Refer to Regulatory Environment section on page 9.

This document also includes disclosures required on a quarterly basis in accordance with CRR article 433a where applicable.

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

	At			
	30 Jun 2022	31 Mar 2022	31 Dec 2021	30 Jun 2021
	€m	€m	€m	€m
Available own funds (amounts)				
Common Equity Tier 1 ('CET1') capital	**6,557**	6,501	5,742	5,681
Tier 1 capital	**7,554**	7,499	6,492	6,431
Total capital	**8,960**	8,905	7,898	7,837
Risk-weighted exposure amounts				
Total risk-weighted exposure amount	**47,893**	46,481	47,795	47,702
Capital ratios (as a percentage of risk-weighted exposure amount) (%)				
Common Equity Tier 1 ratio	**13.7**	14.0	12.0	11.9
Tier 1 ratio	**15.8**	16.1	13.6	13.5
Total capital ratio	**18.7**	19.2	16.5	16.4
Additional own funds requirements to address risks other than the risk of excessive leverage (%) (as a percentage of risk-weighted exposure amount) (%)				
Additional own funds requirements to address risks other than the risk of excessive leverage	**3.2**	3.2	3.0	3.0
– *of which:* *to be made up of CET1 capital (percentage points)*	***1.8***	*1.8*	*1.7*	*1.7*
to be made up of Tier 1 capital (percentage points)	***2.4***	*2.4*	*2.3*	*2.3*
Supervisory review and evaluation process ('SREP') own funds requirements	**11.2**	11.2	11.0	11.0
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount) (%)				
Capital conservation buffer	**2.5**	2.5	2.5	2.5
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	**—**	—	—	—
Institution-specific countercyclical capital buffer	**0.03**	0.03	0.03	0.02
Systemic risk buffer	**—**	—	—	—
Global Systemically Important Institution buffer	**—**	—	—	—
Other Systemically Important Institution buffer[1]	**0.25**	0.25	—	—
Combined buffer requirement	**2.8**	2.8	2.5	2.5
Overall capital requirements	**14.0**	14.0	13.5	13.5
CET1 available after meeting the total SREP own funds requirements	**2.4**	2.7	1.0	0.9
Leverage ratio				
Total exposure measure[2]	**191,759**	152,716	154,604	150,461
Leverage ratio (%)	**3.9**	4.9	4.2	4.3
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount) (%)				
Additional own funds requirements to address the risk of excessive leverage	**—**	—	—	—
– *of which: to be made up of CET1 capital (percentage points)*	**—**	—	—	—
Total SREP leverage ratio requirements (%)	**3.0**	3.4	3.4	3.4
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure) (%)				
Leverage ratio buffer requirement	**—**	—	—	—
Overall leverage ratio requirements[2]	**3.0**	3.4	3.4	3.4
Liquidity Coverage Ratio ('LCR')				
Total high-quality liquid assets ('HQLA') (Weighted value-average)	**48,352**	46,981	47,268	48,748
Cash outflows – Total weighted value	**44,410**	43,062	40,687	40,595
Cash inflows – Total weighted value	**11,003**	11,434	8,120	6,745
Total net cash outflows (adjusted value)	**33,407**	31,628	32,567	33,850
Liquidity coverage ratio (%)	**145**	149	145	144
Net Stable Funding Ratio ('NSFR')				
Total available stable funding	**82,069**	86,531	85,698	82,827
Total required stable funding	**63,760**	64,011	65,759	60,653
NSFR ratio (%)	**129**	135	130	137

1 *A Domestic-Systemically Important Bank (D-SIB equivalent to O-SII) buffer of 0.25% is in force since 1 January 2022.*
2 *Until 31 March 2022, HSBC Continental Europe continued to exclude certain central bank exposures from the leverage exposure measure in application of the exemption granted by the European Central Bank which expired from 1 April 2022. Additionally, from 1 April 2022, the recalibration of the leverage ratio requirement ended and it was set back to 3%.*

RWA movement by global business by key driver (Unaudited)

	Total RWA
	€m
RWAs at 1 January 2022	**47,795**
Asset size	**(136)**
Asset quality	**149**
Model updates	**85**
Methodology and policy	**—**
Foreign exchange movement	**—**
Total RWA movement	**98**
RWAs at 31 June 2022	**47,893**
RWAs by global business	
Markets & Securities Services	**8,764**
Global Banking	**10,688**
Global Banking and Markets Others	**1,110**
Commercial Banking	**16,131**
Wealth and Personal Banking	**10,048**
Corporate Centre	**1,152**

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)

	Ref†	Accounting balance sheet €m	De-consolidation of insurance/ other entities €m	Regulatory balance sheet €m
Assets				
Cash and balances at central banks		39,619	–	39,619
Items in the course of collection from other banks		855	–	855
Trading assets		14,750	–	14,750
Financial assets designated and otherwise mandatorily measured at fair value through profit		11,535	(11,264)	271
Derivatives		52,506	(98)	52,408
Loans and advances to banks		5,985	(390)	5,595
Loans and advances to customers		57,717	–	57,717
– *of which:*				
impairment allowances on IRB portfolios		*(616)*	–	*(616)*
impairment allowances on standardised portfolios		*(169)*	–	*(169)*
Reverse repurchase agreements – non-trading		13,989	–	13,989
Financial investments		15,310	(9,259)	6,051
Assets held for sale		2,124	–	2,124
Prepayments, accrued income and other assets		24,051	(369)	23,682
Current tax assets		125	(14)	111
Interests in associates and joint ventures		2	–	2
Goodwill and intangible assets	e	877	(800)	77
Deferred tax assets	f	28	73	101
Total assets at 30 Jun 2022		**239,473**	**(22,121)**	**217,352**
Liabilities and equity				
Deposits by banks		19,264	(10)	19,254
Customer accounts		66,911	104	67,015
Repurchase agreements – non-trading		9,722	–	9,722
Items in the course of transmission to other banks		571	–	571
Trading liabilities		15,447	–	15,447
Financial liabilities designated at fair value		11,924	805	12,729
Derivatives		47,765	(27)	47,738
Debt securities in issue		7,049	–	7,049
Accruals, deferred income and other liabilities		26,820	(1,193)	25,627
– *of which: retirement benefit liabilities*		*98*	*(2)*	*96*
Liabilities of disposal groups held for sale		2,255	–	2,255
Current tax liabilities		63	(25)	38
Liabilities under insurance contracts		20,735	(20,735)	–
Provisions		169	(4)	165
Deferred tax liabilities	f	92	(83)	9
Subordinated liabilities		1,876	–	1,876
– *of which:*				
perpetual subordinated debt included in tier 2 capital	j	*16*	–	*16*
term subordinated debt included in tier 2 capital	j	*1,860*	–	*1,860*
Total liabilities at 30 Jun 2022		**230,663**	**(21,168)**	**209,495**
Called up share capital	a	602	–	602
Share premium account	a	2,726	–	2,726
Other equity instruments	i	998	–	998
Other reserves	b, c, d, g	1,501	29	1,530
Retained earnings	b, c, d, h	2,974	(982)	1,992
Total shareholders' equity		**8,801**	**(953)**	**7,848**
Non-controlling interests		9	–	9
Total equity at 30 Jun 2022		**8,810**	**(953)**	**7,857**
Total liabilities and equity at 30 Jun 2022		**239,473**	**(22,121)**	**217,352**

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

	Ref†	Accounting balance sheet €m	De-consolidation of insurance/other entities €m	Regulatory balance sheet €m
Assets				
Cash and balances at central banks		38,063	—	38,063
Items in the course of collection from other banks		156	—	156
Trading assets		12,921	—	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit		13,345	(13,020)	325
Derivatives		39,634	(41)	39,593
Loans and advances to banks		6,832	(1,019)	5,813
Loans and advances to customers		59,612	470	60,082
– *of which:*				
impairment allowances on IRB portfolios		*(619)*	—	*(619)*
impairment allowances on standardised portfolios		(158)	—	*(158)*
Reverse repurchase agreements – non-trading		20,487	—	20,487
Financial investments		16,110	(10,807)	5,303
Assets held for sale		2	—	2
Prepayments, accrued income and other assets		14,538	(343)	14,195
Current tax assets		162	(27)	135
Interests in associates and joint ventures		2	—	2
Goodwill and intangible assets	*e*	763	(677)	86
Deferred tax assets	*f*	37	170	207
Total assets at 31 December 2021		222,664	(25,294)	197,370
Liabilities and equity				
Deposits by banks		18,548	(20)	18,528
Customer accounts		70,144	69	70,213
Repurchase agreements – non-trading		8,731	—	8,731
Items in the course of transmission to other banks		280	—	280
Trading liabilities		16,247	—	16,247
Financial liabilities designated at fair value		13,733	971	14,704
Derivatives		35,895	(12)	35,883
Debt securities in issue		7,414	—	7,414
Accruals, deferred income and other liabilities		18,122	(1,702)	16,420
– *of which: retirement benefit liabilities*		*126*	*(3)*	*123*
Current tax liabilities		66	(1)	65
Liabilities under insurance contracts		23,698	(23,698)	—
Provisions		234	(5)	229
Deferred tax liabilities	*f*	—	4	4
Subordinated liabilities		1,876	—	1,876
– *of which:*				
perpetual subordinated debt included in tier 2 capital	*j*	*16*	—	*16*
term subordinated debt included in tier 2 capital	*j*	*1,860*	—	*1,860*
Total liabilities at 31 December 2021		214,988	(24,394)	190,594
Called up share capital	*a*	491	—	491
Share premium account	*a*	2,137	—	2,137
Other equity instruments	*i*	750	—	750
Other reserves	*b, c, d, g*	1,653	(27)	1,626
Retained earnings	*b, c, d, h*	2,636	(873)	1,763
Total shareholders' equity		7,667	(900)	6,767
Non-controlling interests		9	—	9
Total equity at 31 December 2021		7,676	(900)	6,776
Total liabilities and equity at 31 December 2021		222,664	(25,294)	197,370

† *The references (a) – (f) identify balance sheet components that are used in the calculation of regulatory capital in Table 'CC1': Composition of regulatory own funds. This table shows such items at their accounting values, which may be subject to analysis or adjustment in the calculation of regulatory capital shown in Table 'CC1'.*

Composition of regulatory own funds ('CC1') (Unaudited)

	Ref †	At 30 Jun 2022 €m	31 Dec 2021 €m
Common equity tier 1 ('CET1') capital: instruments and reserves			
Capital instruments and the related share premium accounts	a	**3,328**	2,628
– share premium account	a	**2,726**	2,137
Retained earnings	b	**2,719**	2,458
Accumulated other comprehensive income (and other reserves)	c	**1,685**	1,564
Transitional adjustments due to additional minority interests		**—**	—
Independently reviewed interim net profits net of any foreseeable charge or dividend	d	**109**	239
Common equity tier 1 capital before regulatory adjustments		**7,842**	6,890
Common equity tier 1 capital: regulatory adjustments			
Additional value adjustments		**(225)**	(200)
Intangible assets (net of related deferred tax liability)	e	**(77)**	(79)
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	f	**(64)**	(114)
Fair value reserves related to gains or losses on cash flow hedges	g	**36**	(37)
Negative amounts resulting from the calculation of expected loss amounts		**(16)**	(55)
Gains or losses on liabilities at fair value resulting from changes in own credit standing	h	**(141)**	77
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)		**(772)**	(740)
Amount exceeding the 17.65% threshold		**—**	—
Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)		**(25)**	(1)
Total regulatory adjustments to Common Equity Tier 1 ('CET1')		**(1,285)**	(1,149)
Common Equity Tier 1 ('CET1') capital		**6,557**	5,742
Additional tier 1 ('AT1') capital: instruments			
Capital instruments and the related share premium accounts	i	**998**	750
Additional tier 1 capital before regulatory adjustments		**998**	750
Additional tier 1 capital: regulatory adjustments			
Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period		**—**	—
Total regulatory adjustments to Additional Tier 1 ('AT1') capital		**—**	—
Additional Tier 1 ('AT1') capital		**998**	750
Tier 1 capital (T1 = CET1 + AT1)		**7,554**	6,492
Tier 2 ('T2') capital: instruments			
Capital instruments and the related share premium accounts	j	**1,870**	1,876
Tier 2 capital before regulatory adjustments		**1,870**	1,876
Tier 2 capital: regulatory adjustments			
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)
Other regulatory adjustments to T2 capital		**5**	—
Total regulatory adjustments to tier 2 capital		**(475)**	(470)
Tier 2 capital		**1,405**	1,406
Total capital (TC = T1 + T2)		**8,960**	7,898
Total risk-weighted assets		**47,893**	47,795
Capital ratios and buffers			
Common equity tier 1 (%)		**13.7**	12.0
Tier 1 (%)		**15.8**	13.6
Total capital (%)		**18.7**	16.5
Institution CET1 overall capital requirement Institution (%)		**2.8**	2.5
– capital conservation buffer requirement (%)		**2.5**	2.5
– countercyclical buffer requirement (%)		**0.03**	0.03
– Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement (%)[1]		**0.3**	0.0
Common equity tier 1 available to meet buffers (%)		**9.2**	7.5
Amounts below the threshold for deduction (before risk weighting)			
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)		**137**	143
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% thresholds and net of eligible short positions)		**733**	648
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	f	**28**	88

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

† *The references (a) – (f) identify balance sheet components in Table 'CC2': Reconciliation of regulatory own funds to balance sheet in the audited financial statements which is used in the calculation of regulatory capital. This table shows how they contribute to the regulatory capital calculation. Their contribution may differ from their accounting value in Table 'CC2' as a result of adjustment or analysis to apply regulatory definitions of capital.*

1 *A Domestic-Systemically Important Bank (D-SIB equivalent to O-SII) buffer of 0.25% is in force since 1 January 2022.*

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					
Country	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 requirements weights	CCyB rate
	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%
Algeria	—	1	—	—	—	—	—	—	—	—	—
Armenia	13	—	—	—	—	1	—	—	1	—	—
Austria	—	36	—	—	—	3	—	—	3	0.1	—
Azerbaijan	49	36	—	—	—	1	—	—	1	—	—
Bahrain	1	6	—	—	—	—	—	—	—	—	—
Bangladesh	—	23	—	—	—	—	—	—	—	—	—
Barbados	26	—	—	—	—	3	—	—	3	0.1	—
Belgium	40	942	—	—	—	31	—	—	31	1.2	—
Bermuda	—	191	—	—	—	3	—	—	3	0.1	—
Brazil	—	75	—	—	—	1	—	—	1	—	—
Bulgaria	—	8	—	—	—	—	—	—	—	—	0.5
Canada	—	8	—	—	—	2	—	—	2	0.1	—
Cayman Islands	3	263	—	—	—	3	—	—	3	0.1	—
Chile	—	2	—	—	—	—	—	—	—	—	—
China	—	22	—	—	—	—	—	—	—	—	—
Croatia	—	1	—	—	—	—	—	—	—	—	—
Cyprus	—	40	—	—	—	3	—	—	3	0.1	—
Czech Republic	93	470	—	—	—	29	—	—	29	1.1	0.5
Denmark	—	978	—	—	—	55	—	—	55	2.1	—
Egypt	1	34	—	—	—	1	—	—	1	—	—
Finland	3	85	—	—	—	3	—	—	3	0.1	—
France	4,239	48,243	—	—	1,975	1,499	—	27	1,526	58.9	—
Germany	14	1,512	—	—	580	54	—	5	59	2.3	—
Ghana	—	104	—	—	—	2	—	—	2	0.1	—
Greece	310	536	—	—	—	48	—	—	48	1.9	—
Guernsey	—	108	—	—	—	1	—	—	1	0.1	—
Hong Kong	9	370	—	—	—	2	—	—	2	0.1	1.0
Hungary	1	11	—	—	—	—	—	—	—	—	—
India	—	3	—	—	—	—	—	—	—	—	—
Indonesia	10	129	—	—	—	17	—	—	17	0.7	—
Ireland	338	1,860	—	—	—	70	—	—	70	2.7	—
Israel	—	15	—	—	—	—	—	—	—	—	—
Italy	197	1,095	—	—	1	60	—	—	60	2.3	—
Jersey	37	—	—	—	—	2	—	—	2	0.1	—
Kazakhstan	—	76	—	—	—	—	—	—	—	—	—
Kuwait	5	—	—	—	—	—	—	—	—	—	—
Luxembourg	291	3,458	—	—	6	104	—	—	104	4.0	0.5
Malta	9	1	—	—	—	1	—	—	1	—	—
Mexico	10	32	—	—	—	—	—	—	—	—	—
Monaco	—	3	—	—	—	—	—	—	—	—	—
Montenegro	—	3	—	—	—	—	—	—	—	—	—
Netherlands	929	2,922	—	—	317	190	—	3	193	7.5	—
Norway	2	66	—	—	—	3	—	—	3	0.1	1.5
Oman	2	1	—	—	—	—	—	—	—	—	—
Panama	—	184	—	—	—	—	—	—	—	—	—
Poland	509	391	—	—	—	50	—	—	50	1.9	—
Portugal	41	49	—	—	—	4	—	—	4	0.2	—
Qatar	8	33	—	—	—	—	—	—	—	—	—
Russian Federation	—	20	—	—	—	1	—	—	1	—	—
Singapore	1	216	—	—	—	5	—	—	5	0.2	—
Slovakia	23	16	—	—	—	1	—	—	1	—	1.0
Spain	355	1,431	—	—	140	83	—	2	84	3.3	—
Sweden	11	448	—	—	—	24	—	—	24	0.9	—
Switzerland	14	934	—	—	—	20	—	—	20	0.8	—
Thailand	—	98	—	—	—	—	—	—	—	—	—
Turkey	—	108	—	—	—	5	—	—	5	0.2	—
United Arab Emirates	46	501	—	—	—	12	—	—	12	0.5	—
United Kingdom	1,197	1,564	—	—	—	80	—	—	80	3.1	—
United States	241	2,175	—	—	—	70	—	—	70	2.7	—
Viet Nam	1	90	—	—	—	2	—	—	2	0.1	—
Virgin Islands, British	14	—	—	—	—	1	—	—	1	—	—
Total	9,096	72,032	—	—	3,019	2,554	—	38	2,592	100.0	

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

	At	
	30 Jun 2022	31 Dec 2021
Total Risk Exposure Amount (€m)	**47,893**	47,795
Institution specific countercyclical capital buffer rate (%)	**0.03**	0.03
Institution specific countercyclical capital buffer requirement (€m)	**14**	13

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, allowing the exclusions of certain exposures and the netting of exposures on certain market instruments. In addition, until 31 March 2022 HSBC Continental Europe excluded certain central bank exposures from the leverage exposure measure in application of the exemption granted by the European Central Bank expired from 1 April 2022.

This ratio has been implemented in the EU for reporting and disclosure purposes and has been set as a binding requirement since June 2021.

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')*.

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

In order to meet the internal TLAC requirements, HSBC Continental Europe issued Senior Non Preferred bonds in 2020 and 2021.

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

	At	
	30 Jun 2022 €m	31 Dec 2021 €m
Total assets as per published financial statements	**239,473**	222,664
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(22,121)**	(25,294)
(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	**—**	—
(Adjustment for temporary exemption of exposures to central bank (if applicable)) [1]	**—**	(38,063)
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure)	**—**	—
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**(6,524)**	(415)
Adjustment for eligible cash pooling transactions		
Adjustments for derivative financial instruments	**(48,521)**	(29,771)
Adjustment for securities financing transactions ('SFTs')	**4,479**	(2,045)
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**29,659**	32,574
(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	**—**	—
(Adjustment for exposures excluded from the leverage ratio total exposure measure)	**—**	—
(Adjustment for exposures excluded from the leverage ratio total exposure measure)	**(1,941)**	(1,818)
Other adjustments	**(2,745)**	(3,229)
Leverage ratio total exposure measure	**191,759**	154,604

1 *Until 31 March 2022, HSBC Continental Europe continued to exclude certain central bank exposures from the leverage exposure measure in application of the exemption granted by the European Central Bank which expired from 1 April 2022.*

Leverage ratio common disclosure ('LRCom') (Unaudited)

	At	
	30 Jun 2022 €m	31 Dec 2021 €m
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs, but including collateral)[1]	**144,318**	98,281
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**—**	—
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(16,104)**	(8,919)
(Adjustment for securities received under securities financing transactions that are recognised as an asset)	**—**	—
(General credit risk adjustments to on-balance sheet items)	**—**	—
(Asset amounts deducted in determining Tier 1 capital)	**(1,285)**	(1,149)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**126,929**	88,213
Derivative exposures		
Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	**8,278**	6,031
Derogation for derivatives: replacement costs contribution under the simplified standardised approach	**—**	0
Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**14,036**	14,120
Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	**—**	—

Leverage ratio common disclosure ('LRCom') (Unaudited) (continued)

	At	
	30 Jun 2022 €m	31 Dec 2021 €m
Exposure determined under Original Exposure Method	**—**	—
(Exempted CCP leg of client-cleared trade exposures) ('SA-CCR')	**(2,742)**	(2,080)
(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	**—**	—
(Exempted CCP leg of client-cleared trade exposures) (Original exposure method)	**—**	—
Adjusted effective notional amount of written credit derivatives	**2,922**	2,492
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(2,506)**	(1,824)
Total derivatives exposures	**19,987**	18,740
Securities financing transaction ('SFT') exposures		
Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**82,112**	86,386
(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(62,214)**	(68,526)
Counterparty credit risk exposure for SFT assets	**1,430**	582
(Exempted CCP leg of client-cleared SFT exposure)	**—**	—
Total securities financing transaction exposures	**18,468**	18,443
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	**71,368**	76,570
(Adjustments for conversion to credit equivalent amounts)	**(41,709)**	(43,996)
Off-balance sheet exposures	**29,659**	32,574
Excluded exposures		
(Exposures excluded from the leverage ratio total exposure measure)	**—**	—
(Exposures exempted (on- and off-balance sheet))	**(1,941)**	(1,818)
(Excluded guaranteed parts of exposures arising from export credits)	**(1,344)**	(1,548)
(Excluded excess collateral deposited at triparty agents)	**—**	—
(Excluded CSD related services of CSD/institutions)	**—**	—
(Excluded CSD related services of designated institutions)	**—**	—
(Reduction of the exposure value of pre-financing or intermediate loans)	**—**	—
(Total exempted exposures)	**(3,285)**	(3,366)
Capital and total exposure measure		
Tier 1 capital	**7,554**	6,492
Leverage ratio total exposure measure[2]	**191,759**	154,604
Leverage ratio		
Leverage ratio (%)	**3.94**	4.2
Leverage ratio (without the adjustment due to excluded exposures of public development banks – Public sector investments) (%)	**—**	—
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	**3.94**	3.4
Regulatory minimum leverage ratio requirement (%)[2]	**3.0**	3.4
Additional leverage ratio requirements (%)	**—**	—
Required leverage buffer (%)	**—**	—
Choice on transitional arrangements and relevant exposures	**3.0**	3.4
Choice on transitional arrangements for the definition of the capital measure	**Fully phased in**	Fully phased in
Disclosure of mean values		
Mean of daily values of gross SFT assets, (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**21,985**	25,695
Quarter-end value of gross SFT assets, (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**17,038**	17,860
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)	**196,704**	162,439
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)	**196,704**	200,502
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) (%)	**3.8**	4.0
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) (%)	**3.8**	3.2

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

1 *Includes the temporary exemption of central bank exposures as at Q4 2021 which is excluded as at Q2 2022.*

2 *Until 31 March 2022, HSBC Continental Europe continued to exclude certain central bank exposures from the leverage exposure measure in application of the exemption granted by the European Central Bank which expired from 1 April 2022. Additionally, from 1 April 2022, the recalibration of the leverage ratio requirement ended and it was set back to 3%.*

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

	At 30 Jun 2022 €m	At 31 Dec 2021 €m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**141,033**	94,916
Trading book exposures	**27,182**	22,474
Banking book exposures, of which:	**113,851**	72,442
Covered bonds	**—**	—
Exposures treated as sovereigns	**48,685**	7,375
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**16**	35
Institutions	**1,011**	820
Secured by mortgages of immovable properties	**22,025**	21,593
Retail exposures	**3,552**	3,460
Corporate	**31,125**	32,062
Exposures in default	**1,218**	1,213
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**6,219**	5,885

Risk-weighted assets ('RWAs')

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

	At 30 Jun 2022		At 31 Mar 2022		At 31 Dec 2021	
	RWAs	**Capital requirement**	RWAs	Capital requirement	RWAs	Capital requirement
	€m	**€m**	€m	€m	€m	€m
Credit risk (excluding CCR)[1]	**35,474**	**2,838**	34,896	2,792	35,449	2,836
– standardised approach	**8,376**	**670**	8,093	647	8,251	660
– foundation IRB approach	**1,840**	**147**	1,622	130	2,099	168
– slotting approach	**277**	**22**	309	25	—	—
– equities under the simple riskweighted approach	**983**	**79**	1,005	80	979	78
– advanced IRB approach	**23,998**	**1,942**	23,867	1,909	24,120	1,930
Counterparty credit risk	**4,703**	**376**	4,622	370	4,434	355
– standardised approach	**1,547**	**124**	1,323	106	1,121	90
– internal model method ('IMM')	**2,428**	**194**	2,532	203	2,372	190
– exposures to a CCP	**54**	**4**	58	5	48	4
– credit valuation adjustment – ('CVA')	**674**	**54**	709	57	893	71
– other CCR	**—**	**—**	—	—	—	—
Settlement risk	**52**	**4**	8	1	—	—
Securitisation exposures in the non-trading book	**521**	**42**	515	41	570	46
– internal ratings-based approach ('SEC-IRBA')	**—**	**—**	—	—	—	—
– external ratings-based approach ('SEC-ERBA') (including IAA)	**306**	**24**	273	22	315	25
– standardised approach ('SEC-SA')	**215**	**17**	242	19	255	20
Position, foreign exchange and commodities risks (Market risk)	**3,586**	**287**	2,883	231	3,784	303
– standardised approach	**376**	**30**	76	6	477	38
– internal model approach	**3,210**	**257**	2,807	225	3,307	265
Large exposures					—	—
Operational risk	**3,557**	**285**	3,557	285	3,557	285
– basic indicator approach	**—**	**—**	—	—	—	—
– standardised approach	**3,557**	**285**	3,557	285	3,557	285
– advanced measurement approach	**—**	**—**	—	—	—	—
Total	**47,893**	**3,831**	46,481	3,720	47,795	3,824

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

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

	Total RWAs €m	Total own funds requirements €m
RWAs at 31 Dec 2021	**26,219**	**2,098**
Asset size	**(565)**	**(45)**
Asset quality	**144**	**12**
Model updates	**—**	**—**
Methodology and policy	**—**	**—**
Acquisitions and disposals	**—**	**—**
Foreign exchange movements	**—**	**—**
Other	**—**	**—**
RWAs at 31 March 2022	**25,798**	**2,064**
Asset size	**277**	**22**
Asset quality	**40**	**3**
Model updates	**—**	**—**
Methodology and policy	**—**	**—**
Acquisitions and disposals	**—**	**—**
Foreign exchange movements	**—**	**—**
Other	**—**	**—**
RWAs at 30 June 2022	**26,115**	**2,089**

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

	Total RWAs €m	Total own funds requirements €m
RWAs at 31 Dec 2021	**2,372**	**190**
Asset size	**139**	**11**
Asset quality	**21**	**2**
Model updates (IMM only)	**—**	**—**
Methodology and policy (IMM only)	**—**	**—**
Acquisitions and disposals	**—**	**—**
Foreign exchange movements	**—**	**—**
Other	**—**	**—**
RWAs at 31 March	**2,532**	**203**
Asset size	**(69)**	**(6)**
Asset quality	**(35)**	**(3)**
Model updates (IMM only)	**—**	**—**
Methodology and policy (IMM only)	**—**	**—**
Acquisitions and disposals	**—**	**—**
Foreign exchange movements	**—**	**—**
Other	**—**	**—**
RWAs at 30 June 2022	**2,428**	**194**

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
RWAs at 31 Dec 2021[1]	**481**	**1,483**	**444**	**899**	**3,307**	**265**
Regulatory adjustment	—	—	—	—	—	—
RWAs at the previous quarter-end (end of the day)	481	1,483	444	899	3,307	265
Movement in risk levels	(49)	(281)	(27)	(143)	(500)	(40)
Model updates/changes	—	—	—	—	—	—
Methodology and policy	—	—	—	—	—	—
Acquisitions and disposals	—	—	—	—	—	—
Foreign exchange movements	—	—	—	—	—	—
Other	—	—	—	—	—	—
RWAs at the end of the disclosure period (end of the day)	—	—	—	—	—	—
Regulatory adjustment	—	—	—	—	—	—
RWAs at 31 March 2022	**432**	**1,202**	**417**	**756**	**2,807**	**225**
Regulatory adjustment	—	—	—	—	—	—
RWAs at the previous quarter-end (end of the day)	432	1,202	417	756	2,807	225
Movement in risk levels	21	75	85	137	318	25
Model updates/changes	15	42	—	28	85	7
Methodology and policy	—	—	—	—	—	—
Acquisitions and disposals	—	—	—	—	—	—
Foreign exchange movements	—	—	—	—	—	—
Other	—	—	—	—	—	—
RWAs at the end of the disclosure period (end of the day)	—	—	—	—	—	—
Regulatory adjustment	—	—	—	—	—	—
RWAs at 30 June 2022	**468**	**1,319**	**502**	**921**	**3,210**	**257**

1 *31 December 2021 balances represented to reflect the reclassification of EUR 120 million previously reported across VaR, sVaR and IRC, to Other.*

Credit risk – Summary (Unaudited)

	At 30 Jun 2022		At 31 Dec 2021	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
IRB advanced approach	24,275	1,942	24,120	1,930
– central governments and central banks	124	10	141	11
– institutions	242	19	205	16
– corporates	18,115	1,449	17,898	1,432
– *of which: specialised lending*	*678*	*54*	*282*	*23*
– total retail	5,794	464	5,876	470
– *of which:*				
secured by mortgages on immovable property – small and medium sized enterprises ('SME')	*219*	*18*	*249*	*20*
secured by mortgages on immovable property non-SME	*4,486*	*359*	*4,440*	*355*
qualifying revolving retail	—	—	—	—
other SME	*262*	*21*	*318*	*25*
other non-SME	*827*	*66*	*870*	*70*
IRB securitisation positions	—	—	—	—
IRB equity	983	79	979	78
IRB foundation approach	1,840	147	2,099	168
– central governments and central banks	—	—	—	—
– institutions	184	15	185	15
– corporates	1,656	133	1,913	153
Standardised approach	8,897	712	8,821	706
– central governments and central banks	—	—	—	—
– regional governments or local authorities	2	—	2	—
– public sector entities	8	1	10	1
– international organisations	—	—	—	—
– institutions	244	19	283	23
– corporates	4,222	338	3,870	310
– retail	125	10	104	8
– secured by mortgages on immovable property	585	47	571	46
– exposures in default	136	11	134	11
– items associated with particularly high risk	44	3	69	6
– securitisation positions	521	42	570	46
– claims in the form of collective investments undertakings	—	—	—	—
– equity	1,826	146	1,618	129
– other items	1,185	95	1,588	127
Total	**35,995**	**2,880**	36,019	2,882

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

		Specialised lending (Slotting approach)					
Regulatory categories	**Remaining maturity**	**On-balance sheet exposure €m**	**Off-balance sheet exposure €m**	**Risk weight %**	**Exposure value €m**	**Risk weighted exposure amount €m**	**Expected loss amount €m**
Category 1	Less than 2.5 years	**86**	**—**	**50**	**82**	**40**	**—**
	Equal to or more than 2.5 years	**132**	**24**	**70**	**129**	**90**	**1**
Category 2	Less than 2.5 years	**40**	**9**	**70**	**45**	**32**	**—**
	Equal to or more than 2.5 years	**53**	**56**	**90**	**26**	**22**	**—**
Category 3	Less than 2.5 years	**75**	**—**	**115**	**75**	**87**	**2**
	Equal to or more than 2.5 years	**—**	**—**	**115**	**—**	**—**	**—**
Category 4	Less than 2.5 years	**18**	**—**	**250**	**3**	**7**	**—**
	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 30 Jun 2022	Less than 2.5 years	**219**	**9**		**205**	**165**	**3**
	Equal to or more than 2.5 years	**185**	**80**		**154**	**112**	**1**

	Equity exposures under the simple risk-weighted approach					
Categories	**On-balance sheet exposure €m**	**Off-balance sheet exposure €m**	**Risk weight %**	**Exposure value €m**	**Risk weighted exposure amount €m**	**Expected loss amount €m**
Exchange-traded equity exposures	**—**	**—**	**290**	**—**	**—**	**—**
Private equity exposures	**—**	**—**	**190**	**—**	**—**	**—**
Other equity exposures	**239**	**26**	**370**	**266**	**983**	**6**
Total at 30 Jun 2022	**239**	**26**		**266**	**983**	**6**

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

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

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	**1,293**	**183**	***183***	***183***	**(34)**	**(62)**	**79**	***54***
Central banks	—	—	—	—	—	—	—	—
General governments	—	—	—	—	—	—	—	—
Credit institutions	—	—	—	—	—	—	—	—
Other financial corporations	—	—	—	—	—	—	—	—
Non-financial corporations	**1,270**	**148**	***148***	***148***	**(33)**	**(59)**	**27**	***23***
Households	**23**	**35**	***35***	***35***	**(1)**	**(3)**	**52**	***31***
Debt securities	—	—	—	—	—	—	—	—
Loan commitments given	—	—	—	—	—	—	—	—
Total at 30 Jun 2022	**1,293**	**183**	***183***	***183***	**(34)**	**(62)**	**79**	***54***
Loans and advances	1,032	288	*288*	*288*	(10)	(99)	53	*51*
Central banks	—	—	—	—	—	—	—	—
General governments	—	—	—	—	—	—	—	—
Credit institutions	—	—	—	—	—	—	—	—
Other financial corporations	—	—	—	—	—	—	—	—
Non-financial corporations	1,032	203	*203*	*203*	(10)	(88)	14	*12*
Households	—	85	*85*	*85*	—	(11)	39	*39*
Debt securities	—	—	—	—	—	—	—	—
Loan commitments given	—	—	—	—	—	—	—	—
Total at 31 Dec 2021	1,032	288	*288*	*288*	(10)	(99)	53	*51*

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

	At 30 Jun 2022[1]		At 31 Dec 2021[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 2022 and 31 December 2021.*

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	124,710	*112,762*	*11,889*	1,217	—	*1,217*	(158)	*(56)*	*(102)*	(560)	—	*(560)*	—	52,611	269
Central banks	43,096	*43,081*	*15*	—	—	—	—	—	—	—	—	—	—	2,607	—
General governments	2,620	*2,619*	—	—	—	—	—	—	—	—	—	—	—	34	—
Credit institutions	14,201	*14,157*	*45*	—	—	—	—	—	—	—	—	—	—	4,481	—
Other financial corporations	12,008	*11,766*	*243*	1	—	*1*	(4)	*(2)*	*(2)*	—	—	—	—	7,318	—
Non-financial corporations	30,045	*19,869*	*10,116*	931	—	*931*	(129)	*(42)*	*(87)*	(476)	—	*(476)*	—	16,452	159
– *of which: SMEs*	*1,866*	1,518	348	*156*	—	156	*(7)*	(3)	(4)	*(99)*	—	(99)	—	*1,296*	*49*
Households	22,740	*21,270*	*1,470*	285	—	*285*	(25)	*(12)*	*(13)*	(84)	—	*(84)*	—	21,719	110
Debt securities	6,020	*6,020*	—	—	—	—	—	—	—	—	—	—	—	—	—
Central banks	7	*7*	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	3,374	*3,374*	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	2,067	*2,067*	—	—	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	572	*572*	—	—	—	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Off-balance sheet exposures	112,278	*99,338*	*1,448*	150	—	*46*	(27)	*(5)*	*(12)*	(14)	—	*(4)*		404	2
Central banks	91	*85*	—	—	—	—	—	—	—	—	—	—		—	—
General governments	1,430	*1,430*	—	—	—	—	—	—	—	—	—	—		—	—
Credit institutions	4,003	*2,846*	*63*	—	—	—	—	—	—	—	—	—		—	—
Other financial corporations	53,055	*52,048*	*112*	1	—	*1*	(1)	*(1)*	—	—	—	—		15	—
Non-financial corporations	52,420	*41,702*	*1,258*	146	—	*43*	(26)	*(4)*	*(12)*	(14)	—	*(4)*		380	2
Households	1,280	*1,227*	*15*	3	—	*2*	—	—	—	—	—	—		9	—
Total at 30 Jun 2022	243,008	*218,120*	*13,337*	1,367	—	*1,263*	(185)	*(61)*	*(114)*	(574)	—	*(564)*	—	53,015	271

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

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collaterals and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Accumu-lated partial write-off	On per-forming expo-sures	On non-per-forming expo-sures
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances[1]	124,460	115,789	8,538	1,294	—	1,294	(144)	(47)	(97)	(652)	—	(652)	—	57,525	329
Central banks	42,832	42,817	15	—	—	—	—	—	—	—	—	—	—	2,940	—
General governments	934	934	—	—	—	—	—	—	—	—	—	—	—	63	—
Credit institutions	14,644	14,630	14	—	—	—	(1)	(1)	—	—	—	—	—	7,385	—
Other financial corporations	11,760	11,715	45	—	—	—	(1)	(1)	—	—	—	—	—	8,661	—
Non-financial corporations[1]	31,426	23,453	7,840	921	—	921	(115)	(32)	(83)	(516)	—	(516)	—	16,755	137
– of which: SMEs	1,826	1,452	374	164	—	164	(17)	(7)	(10)	(108)	—	(108)	—	1,294	48
Households	22,864	22,240	624	373	—	373	(27)	(13)	(14)	(136)	—	(136)	—	21,721	192
Debt securities	5,741	5,741	—	—	—	—	—	—	—	—	—	—	—	—	—
Central banks	7	7	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	2,582	2,582	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	2,532	2,532	—	—	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	620	620	—	—	—	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	107,608	95,393	1,777	182	—	74	(19)	(7)	(12)	(36)	—	(7)		552	6
Central banks	11	—	—	—	—	—	—	—	—	—	—	—		—	—
General governments	566	566	—	—	—	—	—	—	—	—	—	—		—	—
Credit institutions[2]	2,796	1,928	60	—	—	—	(2)	—	(2)	—	—	—		—	—
Other financial corporations[2]	45,953	44,827	38	—	—	—	(1)	(1)	—	—	—	—		27	—
Non-financial corporations	56,917	46,749	1,655	179	—	72	(16)	(6)	(10)	(36)	—	(7)		452	6
Households	1,365	1,323	24	3	—	2	—	—	—	—	—	—		73	—
Total at 31 Dec 2021	237,809	216,923	10,315	1,476	—	1,368	(163)	(54)	(109)	(688)	—	(659)	—	58,077	335

1 *EUR 3.7 billion were reclassified from stage 1 to stage 2 as at December 2021 following the application of post-model adjustments.*
2 *EUR 34 billion in off balance sheet exposures were reclassified as at December 2021 from “Credit institutions” to “Other financial corporations” following a customer classification change.*

Changes in the stock of non-performing loans and advances ('CR2') (Unaudited)

	At 30 Jun 2022	At 31 Dec 2021
	Gross carrying amount	Gross carrying amount
	€m	€m
Initial stock of non-performing loans and advances	**1,294**	1,394
Inflows to non-performing portfolios	**408**	491
Outflows from non-performing portfolios	**485**	591
Outflows due to write-offs	**19**	83
Outflow due to other situations	**466**	508
Final stock of non-performing loans and advances	**1,217**	1,294

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

	Net exposure value				
	On demand	<= 1 year	> 1 year <= 5	> 5 years	Total
1 Loans and advances	**45,548**	**9,064**	**19,852**	**26,520**	**100,983**
2 Debt securities	**—**	**2,631**	**2,562**	**717**	**5,909**
3 Total at 30 Jun 2022	**45,548**	**11,695**	**22,413**	**27,237**	**106,893**
1 Loans and advances	41,631	12,317	19,635	26,276	99,859
2 Debt securities	—	1,228	3,469	579	5,276
3 Total at 31 Dec 2021	41,631	13,545	23,104	26,855	105,135

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*	*of which: secured by financial guarantees*	*of which: secured by credit derivatives*
	€m	€m	*€m*	*€m*	*€m*
Loans and advances	**71,446**	**29,537**	***8,810***	***20,699***	***28***
Debt securities	**5,909**	**—**	***—***	***—***	***—***
Off-balance sheet exposures	**50,939**	**16,048**	***2,132***	***7,719***	***6,197***
Total at 30 Jun 2022	**128,295**	**45,586**	***10,942***	***28,419***	***6,225***
Loans and advances	61,944	37,916	*11,014*	*26,902*	—
Debt securities	5,185	91	*—*	*91*	—
Off-balance sheet exposures	48,426	25,221	*2,773*	*16,854*	*5,594*
Total at 31 Dec 2021	115,555	63,228	*13,787*	*43,847*	*5,594*

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	**44,017**	**428**	**44,384**	**249**	**—**	**—**
Regional government or local authorities	**280**	**100**	**368**	**20**	**2**	**—**
Public sector entities	**3,870**	**1,027**	**3,868**	**298**	**8**	**—**
Multilateral development banks	**—**	**—**	**—**	**—**	**—**	**—**
International organisations	**281**	**—**	**281**	**—**	**—**	**31**
Institutions	**110**	**1,096**	**118**	**680**	**244**	**68**
Corporates	**5,420**	**4,103**	**5,123**	**1,123**	**4,222**	**64**
Retail	**162**	**235**	**109**	**88**	**125**	**44**
Secured by mortgages on immovable property	**1,312**	**15**	**1,312**	**4**	**585**	**109**
Exposures in default	**142**	**16**	**117**	**4**	**131**	**150**
Exposures associated with particularly high risk	**21**	**23**	**21**	**8**	**44**	**—**
Covered bonds	**—**	**—**	**—**	**—**	**—**	**—**
Institutions and corporates with a short-term credit assessment	**—**	**—**	**—**	**—**	**—**	**—**
Collective investment undertakings	**—**	**—**	**—**	**—**	**—**	**—**
Equity[1]	**731**	**—**	**731**	**—**	**1,826**	**250**
Other items	**2,153**	**—**	**2,153**	**—**	**1,126**	**52**
Total at 30 Jun 2022	**58,498**	**7,043**	**58,585**	**2,474**	**8,312**	**14**
Central governments or central banks	41,053	264	41,446	194	—	—
Regional government or local authorities	257	100	340	50	2	—
Public sector entities	3,524	1,237	3,524	399	10	—
Multilateral development banks	—	—	—	—	—	—
International organisations	293	—	293	—	—	—
Institutions	167	1,126	181	718	283	31
Corporates	4,374	4,468	4,140	1,744	3,870	66
Retail	186	186	114	51	104	63
Secured by mortgages on immovable property	1,315	87	1,315	40	571	42
Exposures in default	150	17	122	3	134	107
Exposures associated with particularly high risk	29	47	29	17	69	150
Covered bonds	—	—	—	—	—	—
Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
Collective investment undertakings	—	—	—	—	—	—
Equity	647	—	647	—	1,618	250
Other items	1,916	—	1,916	—	1,588	83
Total at 31 Dec 2021	53,911	7,532	54,067	3,216	8,251	14

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

	At 30 Jun 2022		At 31 Dec 2021	
	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	–	–	–	–
Institutions	184	184	185	185
Corporates	1,656	1,656	1,913	1,913
– *of which:* *SMEs*	*–*	*–*	*4*	*4*
specialised lending	*–*	*–*	*–*	*–*
Exposures under AIRB	–	–		
Central governments and central banks	124	124	142	142
Institutions	242	242	205	205
Corporates	18,191	18,115	17,983	17,898
– *of which:* *SMEs*	*21*	*21*	*9*	*9*
specialised lending	*678*	*678*	*282*	*282*
Retail	5,794	5,794	5,876	5,876
– *of which:* *retail – SMEs – Secured by immovable property collateral*	*219*	*219*	*248*	*248*
retail – non-SMEs – Secured by immovable property collateral	*4,486*	*4,486*	*4,440*	*4,440*
retail – Qualifying revolving	*–*	*–*	*–*	*–*
retail – SMEs – Other	*262*	*262*	*318*	*318*
retail – Non-SMEs – Other	*827*	*827*	*870*	*870*
Total (including FIRB exposures and AIRB exposures)	**26,191**	**26,115**	26,304	26,219

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

		Credit risk Mitigation techniques				
				Funded credit Protection ('FCP')		
	Total exposures	Part of exposures covered by Financial Collaterals	Part of exposures covered by Other eligible collaterals	Part of exposures covered by Immovable property Collaterals	Part of exposures covered by Receivables	Part of exposures covered by Other physical collateral
		%	%	%	%	%
A-IRB						
Central governments and central banks	1,533	–	–	–	–	–
Institutions	1,135	–	–	–	–	–
Corporates	43,185	3	12	10	1	2
– *of which:* *Corporates – SMEs*	*40*	*100*	*100*	*100*	*100*	*15*
Corporates – Specialised lending	*918*	*–*	*–*	*–*	*–*	*–*
Corporates – Other	*42,227*	*3*	*12*	*10*	*–*	*2*
Retail	24,700	7	31	31	–	–
– *of which:* *Retail – Immovable property SMEs*	*365*	*7*	*100*	*100*	–	–
Retail – Immovable property non-SMEs	*20,642*	*1*	*33*	*33*	–	–
Retail – Qualifying revolving	*1*	*–*	*–*	*–*	*–*	*–*
Retail – Other SMEs	*1,183*	*11*	*1*	*–*	*1*	*–*
Retail – Other non-SMEs	*2,509*	*52*	*–*	*–*	*–*	*–*
Total A-IRB at 30 Jun 2022	**70,553**	**4**	**18**	**17**	**–**	**1**
F-IRB						
Central governments and central banks	–	–	–	–	–	–
Institutions	298	1	–	–	–	–
Corporates	2,776	19	2	–	–	2
– *of which:* *Corporates – SMEs*	*–*	*–*	*–*	*–*	*–*	*–*
Corporates – Specialised lending	*–*	*–*	*–*	*–*	*–*	*–*
Corporates – Other	*2,776*	*19*	*2*	*–*	*–*	*2*
Total F-IRB at 30 June 2022	**3,074**	**17**	**2**	**–**	**–**	**2**

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

		Credit risk Mitigation techniques				
				Funded credit Protection ('FCP')		
	Total exposures	Part of exposures covered by Financial Collaterals %	Part of exposures covered by Other eligible collaterals %	Part of exposures covered by Immovable property Collaterals %	Part of exposures covered by Receivables %	Part of exposures covered by Other physical collateral %
A-IRB						
Central governments and central banks	1,687	—	—	—	—	—
Institutions	837	—	—	—	—	—
Corporates	51,458	4	13	10	1	2
– *of which:* *Corporates – SMEs*	*21*	—	*100*	*100*	—	—
Corporates – Specialised lending	*392*	—	—	—	—	—
Corporates – Other	*51,046*	*4*	*13*	*10*	*1*	*2*
Retail	24,553	7	30	30	—	—
– *of which:* *Retail – Immovable property SMEs*	*391*	*7*	*100*	*100*	—	—
Retail – Immovable property non-SMEs	*20,287*	*1*	*33*	*33*	—	—
Retail – Qualifying revolving	*1*	—	—	—	—	—
Retail – Other SMEs	*1,303*	*10*	*1*	—	*1*	—
Retail – Other non-SMEs	*2,572*	*53*	—	—	—	—
Total A-IRB at 31 Dec 2021	78,535	5	18	16	1	1
F-IRB						
Central governments and central banks	—	—	—	—	—	—
Institutions	324	—	—	—	—	—
Corporates	2,830	25	3	—	—	3
– *of which:* *Corporates – SMEs*	*7*	—	—	—	—	—
Corporates – Specialised lending	—	—	—	—	—	—
Corporates – Other	*2,823*	*25*	*3*	—	—	*3*
Total F-IRB at 31 Dec 2021	3,154	22	3	—	—	3

	Credit risk Mitigation techniques		**Credit risk Mitigation methods in the calculation of RWAs**	
	Unfunded credit Protection ('UFCP')			
	Part of exposures covered by Guarantees %	**Part of exposures covered by Credit Derivatives %**	**RWAs without substitution effects (reduction effects only) €m**	**RWAs with substitution effects (both reduction and sustitution effects) €m**
A-IRB				
Central governments and central banks	**—**	**—**	**124**	**124**
Institutions	**—**	**—**	**242**	**242**
Corporates	**5**	**—**	**18,115**	**18,115**
– *of which:* *Corporates – SMEs*	***100***	**—**	***21***	***21***
Corporates – Specialised lending	**—**	**—**	***678***	***678***
Corporates – Other	***2***	**—**	***17,416***	***17,416***
Retail	**74**	**—**	**5,794**	**5,794**
– *of which:* *Retail – Immovable property SMEs*	**—**	**—**	***219***	***219***
Retail – Immovable property non-SMEs	***86***	**—**	***4,486***	***4,486***
Retail – Qualifying revolving	**—**	**—**	**—**	**—**
Retail – Other SMEs	***34***	**—**	***262***	***262***
Retail – Other non-SMEs	***1***	**—**	***827***	***827***
Total A-IRB at 30 Jun 2022	**29**	**—**	**24,275**	**24,275**
F-IRB				
Central governments and central banks	**—**	**—**	**—**	**—**
Institutions	**—**	**—**	**184**	**184**
Corporates	**49**	**—**	**1,789**	**1,656**
– *of which:* *Corporates – SMEs*	**—**	**—**	**—**	**—**
Corporates – Specialised lending	**—**	**—**	**—**	**—**
Corporates – Other	***49***	**—**	***1,788***	***1,656***
Total F-IRB at 30 Jun 2022	**45**	**—**	**1,972**	**1,840**

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

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

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)	1,619	1,401	—	1.4	—	4,228	4,228	1,068
IMM (for derivatives and SFTs)			5,559	1.45	—	8,061	8,061	2,428
– of which:								
securities financing transactions netting sets	—	—	—	*1.45*	—	—	—	—
derivatives and long settlement transactions netting sets	—	—	*5,559*	*1.45*	—	*8,061*	*8,061*	*2,428*
from contractual cross-product netting sets	—	—			—			
Financial collateral simple method (for SFTs)	—	—	—		—	—	—	—
Financial collateral comprehensive method (for SFTs)	—	—	—		—	7,473	7,473	479
VaR for SFTs	—	—	—		—			
Total at 30 Jun 2022	**1,619**	**1,401**	**5,559**		**—**	**19,762**	**19,762**	**3,975**

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

	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)	1,911	1,205	—	1.4	—	4,268	4,268	818
IMM (for derivatives and SFTs)			6,055	1.45	—	8,798	8,798	2,372
– *of which:*								
securities financing transactions netting sets	—	—	—	*1.45*	—	—	—	—
derivatives and long settlement transactions netting sets	—	—	*6,055*	*1.45*		*8,798*	*8,798*	*2,372*
from contractual cross-product netting sets	—	—			—			
Financial collateral simple method (for SFTs)	—	—	—		—	—	—	—
Financial collateral comprehensive method (for SFTs)	—	—	—		—	8,465	8,465	303
VaR for SFTs	—	—	—		—			
Total at 31 Dec 2021	1,911	1,205	6,055		—	21,531	21,531	3,493

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

		At 30 Jun 2022		At 31 Dec 2021	
		Exposure value	**RWAs**	Exposure value	RWAs
		€m	**€m**	€m	€m
1	Total transactions subject to the Advanced method	**3,929**	**350**	4,828	415
2	(i) VaR component (including the 3× multiplier)		**67**		87
3	(ii) stressed VaR component (including the 3× multiplier)		**283**		328
4	Transactions subject to the Standardised method	**1,261**	**324**	1,238	478
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure		**—**		
5	**Total transactions subject to own funds requirements for CVA risk[1]**	**5,191**	**674**	6,066	893

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**
Cash – domestic currency	**—**	**24,212**	**—**	**20,972**	**—**	**73,668**	**—**	**84,865**
Cash – other currencies	**—**	**7,610**	**—**	**4,550**	**—**	**1,236**	**—**	**5,813**
Domestic sovereign debt	**5**	**731**	**—**	**175**	**—**	**26,243**	**—**	**21,350**
Other sovereign debt	**16**	**2,575**	**83**	**594**	**—**	**56,193**	**—**	**51,413**
Government agency debt	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**454**	**3,519**	**260**	**991**	**—**	**2,310**	**—**	**1,933**
Equity securities	**—**	**—**	**—**	**—**	**—**	**2,329**	**—**	**1,990**
Other collateral	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total at 30 Jun 2022	**475**	**38,647**	**344**	**27,283**	**—**	**161,979**	**—**	**167,365**
Cash – domestic currency	—	15,392	—	13,442	—	80,477	—	83,368
Cash – other currencies	—	5,489	—	2,528	—	309	—	6,639
Domestic sovereign debt	39	563	—	241	—	17,674	—	29,358
Other sovereign debt	228	1,859	181	768	—	63,837	—	50,197
Government agency debt	—	—	—	—	—	—	—	—
Corporate bonds	—	12	2	—	—	2,413	—	1,028
Equity securities	—	—	—	—	—	902	—	726
Other collateral	—	566	—	—	—	68	—	29
Total at 31 Dec 2021	268	23,881	183	16,978	—	165,680	—	171,346

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

		At 30 Jun 2022		At 31 Dec 2021	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
	Outright products				
1	Interest rate risk (general and specific)[1]	**1**	**—**	3	—
2	Equity risk (general and specific)	**274**	**22**	—	—
3	Foreign exchange risk	**101**	**8**	473	38
4	Commodity risk	**—**	**—**	—	—
	Options	**—**	**—**		
5	Simplified approach	**—**	**—**	—	—
6	Delta-plus method	**—**	**—**	1	—
7	Scenario approach	**—**	**—**	—	—
8	Securitisation (specific risk)	**—**	**—**	—	—
9	**Total**	**376**	**30**	477	38

1 *HSBC Continental Europe does not have specific risk positions related to securitisation at 31 December 2021 and 30 June 2022.*

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

		At 30 Jun 2022		At 31 Dec 2021[1]	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
1	**VaR (higher of values a and b)**	**468**	**37**	481	38
(a)	Previous day's VaR ('VaRt-1')	**115**	**9**	93	7
(b)	Multiplication factor (mc) x average of previous 60 working days ('VaRavg')	**468**	**37**	481	38
2	**Stressed VaR (higher of values a and b)**	**1,319**	**106**	1,483	119
(a)	Latest available SVaR ('SVaRt-1')	**270**	**22**	247	20
(b)	Multiplication factor (ms) x average of previous 60 working days ('sVaRavg')	**1,319**	**106**	1,483	119
3	**Incremental risk charge (higher of values a and b)**	**502**	**40**	444	36
(a)	Most recent IRC value	**499**	**40**	266	21
(b)	Average IRC value	**502**	**40**	444	36
5	**Other**	**921**	**74**	899	72
6	**Total**	**3,210**	**257**	3,307	265

1 *1 December 2021 balances represented to reflect the reclassification of EUR 120 million previously reported across VaR, sVaR and IRC, to Other.*

Operational risk RWAs (Unaudited)

	At 30 Jun 2022		At 31 Dec 2021	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Own funds requirement for operational risk	**3,557**	**285**	3,557	285

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 145 per cent as at 30 June 2022.

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 2022		31 Mar 2022		31 Dec 2021		30 Sep 2021	
	Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
	€m	**€m**	€m	€m	€m	€m	€m	€m
Number of data points used in the calculation of averages	**12**		12		12		12	
High-quality liquid asset								
Total high-quality liquid assets ('HQLA')		**48**		48		47		47
Cash – Outflows								
Retail deposits and small business funding	**26**	**2**	26	2	26	2	25	2
– *of which:*								
stable deposits	***16***	***1***	*16*	*1*	*16*	*1*	*16*	*1*
less stable deposits	***11***	***1***	*10*	*1*	*10*	*1*	*10*	*1*
Unsecured wholesale funding	**39**	**17**	38	17	36	16	35	15
– Operational deposits (all counterparties) and deposits in networks of cooperative banks	**16**	**4**	17	4	16	4	16	4
– Non-operational deposits (all counterparties)	**22**	**13**	21	12	20	11	18	11
– Unsecured debt	**1**	**1**	1	1	—	—	1	1
Secured wholesale funding		**1**		—		—		—
Additional requirements	**53**	**12**	55	12	56	12	54	11
– Outflows related to derivative exposures and other collateral requirements	**2**	**2**	2	2	2	2	2	2
– Outflows related to loss of funding on debt products		**—**		—	—	—	—	—
– Credit and liquidity facilities	**51**	**10**	53	10	54	10	52	9
Other contractual funding obligations	**10**	**3**	10	3	9	2	8	2
Other contingent funding obligations	**17**	**1**	16	1	15	1	14	1
Total cash outflows		**36**		35		33		31
Cash – Inflows								
Secured lending transactions (including reverse repos)	**44**	**2**	45	1	47	1	47	—
Inflows from fully performing exposures	**3**	**2**	3	2	3	2	3	2
Other cash inflows	**12**	**5**	12	5	11	4	11	4
(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	**59**	**9**	60	8	61	7	61	6
Fully exempt inflows		**—**		—	—	—	—	—
Inflows subject to 90% cap		**—**		—	—	—	—	—
Inflows subject to 75% cap	**58**	**9**	58	8	58	7	58	6
Total adjusted value								
Liquidity buffer		**48**		48		47		47
Total net cash outflows		**34**		34		33		32
Liquidity coverage ratio %[1]		**140**		141		142		145

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 129 per cent at 30 June 2022.

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 2022					
Available stable funding ('ASF') Items					
Capital items and instruments					
Own funds	—	—	—	10,710	10,710
Other capital instruments		—	—	—	—
Retail deposits		25,984	—	—	23,861
Stable deposits		15,593	—	—	14,814
Less stable deposits		10,390	—	—	9,047
Wholesale funding		60,449	8,222	1,684	29,522
Operational deposits		19,213	—	—	7,505
Other wholesale funding		41,236	8,222	1,684	22,017
Interdependent liabilities		—	—	—	—
Other liabilities					
NSFR derivative liabilities	—	—	—	—	—
All other liabilities and capital instruments not included in the above categories		34,251	1,856	17,049	17,977
Total available stable funding ('ASF')		—	—	—	82,069
Required stable funding ('RSF') Items		—	—	—	—
Total high-quality liquid assets ('HQLA')		—	—	—	3,979
Assets encumbered for more than 12m in cover pool		—	—	23,266	22,596
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		41,763	—	—	—
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		33,499	752	4,484	6,036
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		12,225	3,049	21,134	24,971
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*6*	*6*	*14,495*	13,400
Performing residential mortgages		836	825	19,574	—
– *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		5,509	—	8	72
Interdependent assets					
Other assets:					
Physical traded commodities					
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				940	799
NSFR derivative assets				1,200	1,200
NSFR derivative liabilities before deduction of variation margin posted				15,677	784
All other assets not included in the above categories		8,467	—	3,850	3,950
Off-balance sheet items		—	—	71,368	3,353
Total RSF					63,760
Net Stable Funding Ratio (%)					129

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, 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 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 net interest income 'NII') and sensitivity of economic value of equity ('EVE').

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

Interest rate risks of non-trading book activities ('IRRBB1') (Unaudited)

	ΔEVE		ΔNII[1]	
	30 June 2022	31 Dec 2021	30 June 2022	31 Dec 2021
	€m	€m	€m	€m
Parallel shock up	(454)	(507)	97	114
Parallel shock down	(15)	13	69	(91)
Steepener shock	(55)	(74)		
Flattener shock	(48)	(77)		
Short rates shock up	(64)	(56)		
Short rates shock down	3	27		

1 *2021 figures have been restated to eliminate the impact of floored rates.*

In a very volatile rates environment, HSBC Continental Europe monitors the evolution of prepayment and renegotiation of 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.

Market risks

Market risks in the first half of 2022

Markets experienced a volatile first half of the year due to concerns such as inflationary pressure, tightening monetary policy, war in Ukraine and Covid-19 restrictions in China.

Developed equity markets faced their worst semester over 50 years. Recession fears have risen, due to the squeeze on consumers from higher prices and higher borrowing costs as the central banks seek to fight inflation.

The biggest risk to the European economy is the reduction in gas supplies coming from Russia, which has driven prices up significantly, and is raising fears of outright shortages and rationing if it continues.

The European market is pricing in significant rate rises from the European Central Bank ('ECB') who seeks to fight inflation in doing so. At the same time, the borrowing yield spread between Italian and German governments has widened materially, as it did in the run up to the Eurozone sovereign debt crisis about a decade ago. In reaction, the ECB has said that it would come up with an anti-fragmentation tool to allow for an even transmission of its desired monetary policy across the Eurozone, and hence help keep the Eurozone together.

Value at Risk ('VaR')

Trading portfolios

Value at Risk of the trading portfolio

Trading VaR predominantly resides within Market and 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 2022	**1.14**	**2.71**	**0.46**	**0.64**	**(1.88)**	**3.07**
Average	**0.61**	**2.58**	**0.55**	**0.83**	**(2.00)**	**2.57**
Maximum	**1.24**	**4.86**	**1.18**	**1.39**	**(3.46)**	**4.61**
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

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 2022	**—**	**3.12**	**—**	**2.31**	**(1.87)**	**3.56**
Average	**—**	**3.07**	**—**	**2.44**	**(1.26)**	**4.25**
Maximum	**—**	**4.41**	**—**	**3.57**	**(2.45)**	**8.10**
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

Condensed financial statements

Consolidated income statement

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2022	2021	2021
	Notes	**€m**	€m	€m
Net interest income		**556**	480	507
– interest income		**978**	829	871
– interest expense		**(422)**	(349)	(364)
Net fee income	*3*	**485**	457	458
– fee income		**658**	642	662
– fee expense		**(173)**	(185)	(204)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		**211**	90	(9)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss		**(1,332)**	787	439
Changes in fair value of designated debt and related derivatives		**(22)**	(6)	(5)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss		**18**	19	33
Gains less losses from financial investments		**(6)**	17	(1)
Net insurance premium income		**902**	875	757
Other operating income		**48**	217	77
Total operating income		**860**	2,936	2,256
Net insurance claims and benefits paid and movement in liabilities to policyholders		**358**	(1,640)	(1,189)
Net operating income before change in expected credit losses and other credit impairment charges		**1,218**	1,296	1,067
Change in expected credit losses and other credit impairment charges		**—**	1	(34)
Net operating income		**1,218**	1,297	1,033
Employee compensation and benefits		**(455)**	(488)	(426)
General and administrative expenses		**(536)**	(578)	(473)
Depreciation and impairment of property, plant and equipment and right of use assets		**(31)**	(42)	(33)
Amortisation and impairment of intangible assets and goodwill impairment		**(12)**	(3)	(3)
Total operating expenses		**(1,034)**	(1,111)	(935)
Operating profit/(loss)		**184**	186	98
Share of profit/(loss) in associates and joint ventures		**—**	1	—
Profit/(loss) before tax		**184**	187	98
Tax expense		**(57)**	(34)	17
Profit/(loss) for the period		**127**	153	115
Attributable to:				
– shareholders of the parent company		**127**	153	116
– non-controlling interests		**—**	—	(1)

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2022	30 Jun 2021	31 Dec 2021
	€m	€m	€m
Profit/(loss) for the period	**127**	153	115
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:	**(85)**	(29)	(5)
– fair value gains/(losses)	**(125)**	(20)	(7)
– fair value losses/(gains) transferred to the income statement on disposal	**6**	(19)	1
– expected credit losses recognised in income statement	**4**	(1)	(1)
– income taxes	**30**	11	2
Cash flow hedges:	**(72)**	(23)	(9)
– fair value gains/(losses)	**(95)**	(39)	(20)
– fair value gains/(losses) reclassified to the income statement	**(3)**	6	5
– income taxes	**26**	10	6
Exchange differences and other	**6**	19	7
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability:	**21**	4	(4)
– before income taxes	**25**	5	(2)
– income taxes	**(4)**	(1)	(2)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:	**212**	(7)	10
– before income taxes	**288**	(9)	16
– income taxes	**(76)**	2	(6)
Equity instruments designated at fair value through other comprehensive income:	**(1)**	—	1
– fair value gains/(losses)	**(1)**	—	1
– income taxes	**—**	—	—
Other comprehensive income/(expense) for the period, net of tax	**81**	(36)	—
Total comprehensive income/(expense) for the period	**208**	117	115
Attributable to:			
– shareholders of the parent company	**208**	117	116
– non-controlling interests	**—**	—	(1)

Consolidated balance sheet

		At	
		30 Jun	31 Dec
		2022	2021
	Notes	**€m**	€m
Assets			
Cash and balances at central banks		**39,619**	38,063
Items in the course of collection from other banks		**855**	156
Trading assets		**14,750**	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**11,535**	13,345
Derivatives		**52,506**	39,634
Loans and advances to banks		**5,985**	6,832
Loans and advances to customers		**57,717**	59,612
Reverse repurchase agreements – non-trading		**13,989**	20,487
Financial investments		**15,310**	16,110
Asset held for sale	*8*	**2,124**	2
Prepayments, accrued income and other assets		**24,051**	14,538
Current tax assets		**125**	162
Interests in associates and joint ventures		**2**	2
Goodwill and intangible assets	*4, 7*	**877**	763
Deferred tax assets		**28**	37
Total assets		**239,473**	222,664
Liabilities			
Deposits by banks		**19,264**	18,548
Customer accounts		**66,911**	70,144
Repurchase agreements – non-trading		**9,722**	8,731
Items in the course of transmission to other banks		**571**	280
Trading liabilities		**15,447**	16,247
Financial liabilities designated at fair value		**11,924**	13,733
Derivatives		**47,765**	35,895
Debt securities in issue		**7,049**	7,414
Accruals, deferred income and other liabilities		**26,820**	18,122
Liabilities of disposal groups held for sale	*8*	**2,255**	—
Current tax liabilities		**63**	66
Liabilities under insurance contracts		**20,735**	23,698
Provisions	*9*	**169**	234
Deferred tax liabilities		**92**	—
Subordinated liabilities		**1,876**	1,876
Total liabilities		**230,663**	214,988
Equity			
Called up share capital		**602**	491
Share premium account		**2,726**	2,137
Other equity instruments	*2*	**998**	750
Other reserves		**1,501**	1,653
Retained earnings		**2,974**	2,636
Total Shareholders' equity		**8,801**	7,667
Non-controlling interests		**9**	9
Total equity		**8,810**	7,676
Total liabilities and equity		**239,473**	222,664

Consolidated statement of cash flows

	Half-year to		
	30 Jun 2022	30 Jun 2021	31 Dec 2021
	€m	€m	€m
Profit/(loss) before tax	**184**	187	98
Adjustments for non-cash items	**(334)**	(258)	(175)
– depreciation, amortisation and impairment of property plant and equipment, right of use and intangibles	**43**	45	36
– net gain from investing activities	**108**	(17)	17
– share of profits in associates and joint ventures	**—**	(1)	—
– change in expected credit losses gross of recoveries and other credit impairment changes	**7**	2	35
– provisions including pensions	**23**	(2)	6
– share-based payment expense	**4**	8	7
– other non-cash items included in profit before tax	**(117)**	(170)	(10)
– elimination of exchange differences	**(402)**	(123)	(266)
Changes in operating assets and liabilities	**6,121**	6,849	133
– change in net trading securities and derivatives	**(3,754)**	(1,348)	(3,237)
– change in loans and advances to banks and customers	**1,214**	1,490	(4,364)
– change in reverse repurchase agreements – non-trading	**2,073**	2,425	1,424
– change in financial assets designated at fair value and otherwise mandatorily measured at fair value	**1,810**	(1,162)	(535)
– change in other assets	**(1)**	4,398	2,285
– change in deposits by banks and customer accounts	**(298)**	7,008	3,087
– change in repurchase agreements – non-trading	**991**	(4,528)	2,275
– change in debt securities in issue	**(365)**	438	3,371
– change in financial liabilities designated at fair value	**(1,520)**	(662)	(2,489)
– change in other liabilities	**5,988**	(1,185)	(1,669)
– tax paid	**(17)**	(25)	(15)
Net cash from operating activities	**5,971**	6,778	56
Purchase of financial investments	**(2,229)**	(1,595)	(1,092)
Proceeds from the sale and maturity of financial investments	**1,238**	4,115	993
Net cash flow from the purchase and sale of property, plant and equipment	**(13)**	(27)	(9)
Net investment in intangible assets	**(1)**	(2)	(4)
Net cash flow on disposal/acquisition of subsidiaries, businesses, associates and joint ventures	**—**	—	—
Net cash from investing activities	**(1,005)**	2,491	(112)
Issue of ordinary share capital and other equity instruments	**948**	—	—
Subordinated loan capital issued	**—**	—	—
Dividends paid to shareholders of the parent company	**(17)**	(15)	(15)
Dividends paid to non-controlling interests	**—**	—	—
Net cash from financing activities	**931**	(15)	(15)
Net increase/(decrease) in cash and cash equivalents	**5,897**	9,254	(71)
Cash and cash equivalents at beginning of the period	**56,999**	47,567	56,903
Exchange differences in respect of cash and cash equivalents	**159**	82	167
Cash and cash equivalents at the end of the period	**63,055**	56,903	56,999
Cash and cash equivalents comprise of:			
– cash and balances at central banks	**39,619**	40,460	38,063
– items in the course of collection from other banks	**855**	682	156
– loans and advances to banks of one month or less	**3,120**	3,670	4,333
– reverse repurchase agreement with banks of one month or less	**7,627**	7,621	12,052
– treasury bills, other bills and certificates of deposit less than three months	**—**	330	71
– net settlement accounts and cash collateral	**10,767**	4,336	2,604
– cash and cash equivalents held for sale[1]	**1,638**	—	—
– less: items in the course of transmission to other banks	**(571)**	(196)	(280)
Cash and cash equivalents at the end of the period	**63,055**	56,903	56,999

1 *Includes balances of Greece branch reclassified as held for sale.*

Consolidated statement of changes in equity

				Other reserves						
	Called-up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI Reserve	Cash flow hedging reserve	Foreign exchange reserve	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 2022	**2,628**	**750**	**2,636**	**45**	**37**	**(21)**	**1,592**	**7,667**	**9**	**7,676**
Profit/(loss) for the period	**—**	**—**	**127**	**—**	**—**	**—**	**—**	**127**	**—**	**127**
Other comprehensive income (net of tax)	**—**	**—**	**233**	**(86)**	**(72)**	**6**	**—**	**81**	**—**	**81**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**(85)**	**—**	**—**	**—**	**(85)**	**—**	**(85)**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**—**	**(1)**	**—**	**—**	**—**	**(1)**	**—**	**(1)**
– cash flow hedges	**—**	**—**	**—**	**—**	**(72)**	**—**	**—**	**(72)**	**—**	**(72)**
– re-measurement of defined benefit asset/ liability	**—**	**—**	**21**	**—**	**—**	**—**	**—**	**21**	**—**	**21**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	**—**	**—**	**212**	**—**	**—**	**—**	**—**	**212**	**—**	**212**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**6**	**—**	**6**	**—**	**6**
Total comprehensive income for the period	**—**	**—**	**360**	**(86)**	**(72)**	**6**	**—**	**208**	**—**	**208**
Capital securities issued during the period	**700**	**248**	**—**	**—**	**—**	**—**	**—**	**948**	**—**	**948**
Dividends to shareholders[2]	**—**	**—**	**(17)**	**—**	**—**	**—**	**—**	**(17)**	**—**	**(17)**
Net impact of equity-settled share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other movements	**—**	**—**	**(5)**	**—**	**—**	**—**	**—**	**(5)**	**—**	**(5)**
Total Others	**700**	**248**	**(22)**	**—**	**—**	**—**	**—**	**926**	**—**	**926**
At 30 Jun 2022	**3,328**	**998**	**2,974**	**(41)**	**(35)**	**(15)**	**1,592**	**8,801**	**9**	**8,810**

1 At 30 June 2022, 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 153 million.

2 Dividends are coupons paid on additional tier 1 insruments.

				Other reserves						
	Called-up share capital and share premium	Other equity instruments	Retained earnings[3]	Financial assets at FVOCI Reserve	Cash flow hedging reserve	Foreign exchange reserve	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	2,412	78	69	(47)	1,588	7,478	25	7,503
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	2,536	49	46	(28)	1,591	7,572	25	7,597

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.

3 Retrospective restatement of the opening balance of retained earnings (EUR 44 million) following the adoption of changes in methodology for the recognition of pension liabilities (EUR 35 million attributable to a change in accrual methodology, EUR 9 million attributable to the change in starting point for the accrual as a result of an IFRIC final agenda decision in relation to the period of service over which employee benefits are attributed).

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 2021	2,628	750	2,536	49	46	(28)	1,591	7,572	25	7,597
Profit/(loss) for the period	—	—	116	—	—	—	—	116	(1)	115
Other comprehensive income (net of tax)	—	—	6	(4)	(9)	7	—	—	—	—
– debt instruments at fair value through other comprehensive income	—	—	—	(5)	—	—	—	(5)	—	(5)
– equity instruments designated at fair value through other comprehensive income	—	—	—	1	—	—	—	1	—	1
– cash flow hedges	—	—	—	—	(9)	—	—	(9)	—	(9)
– 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]	—	—	10	—	—	—	—	10	—	10
– exchange differences	—	—	—	—	—	7	—	7	—	7
Total comprehensive income for the period	—	—	122	(4)	(9)	7	—	116	(1)	115
Capital securities issued during the period	—	—	—	—	—	—	—	—	—	—
Dividends to shareholders[2]	—	—	(15)	—	—	—	—	(15)	—	(15)
Net impact of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	—
Other movements	—	—	(7)	—	—	—	1	(6)	(15)	(21)
Total Others	—	—	(22)	—	—	—	1	(21)	(15)	(36)
At 31 Dec 2021	2,628	750	2,636	45	37	(21)	1,592	7,667	9	7,676

1 At 31 December 2021, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value recognised in reserves was a loss of EUR (59) 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 2022 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 2021 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 29 July 2022.

(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 European Union ('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 2021.*

At 30 June 2022, there were no unendorsed standards effective for the half year to 30 June 2022 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 2022

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 entity'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 2021, which are stated on pages 183 to 193 of the *Universal Registration Document 2021*.

(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 2022. See Note 13 'Changes in consolidation perimeter during the first half-year of 2022' and Note 8 'Business disposals' for details on planned business disposals.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020 and December 2021. The EU has adopted IFRS 17 subject to certain optional exemptions, except for the December 2021 amendments which are pending adoption. Following the amendments, IFRS 17 is effective from 1 January 2023, with comparatives restated from 1 January 2022. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds, and applies retrospectively. The main changes arising from IFRS 17 are the derecognition of the Present value of in-force ('PVIF') business asset in respect of unearned profits, the recognition of a contractual service margin ('CSM') liability, and those in relation to the measurement of insurance liabilities. All of these impacts will be subject to deferred tax.

HSBC Continental Europe continues to make progress on the implementation of IFRS 17 with accounting policies, data and models in place, with focus now on finalising the opening balance sheet and rehearsing our operational readiness. Industry practice and interpretation of aspects of the standard are still evolving, and there remains uncertainty around the likely financial impact of its implementation. Work is still ongoing to estimate the opening balance sheet and the income statement impacts.

(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 uncertainty that the global Covid-19 pandemic and geopolitical developments have had on HSBC's operations, as well as considering potential impacts from other Top & Emerging Risks, and those arising from the planned sales of the retail business in France and branch operations in Greece.

(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 2021*.

(g) Significant events during the first half-year

Business disposals

On 24 May 2022, HSBC Continental Europe signed a Sale and Purchase Agreement for the planned sale of its Greece branch operations to Pancreta Bank SA. As at 30 June 2022, the business was classified as held for sale in accordance with IFRS 5 and losses and impairments of EUR 111 million were recognised.

See Note 8 'Business Disposals' for details and for an update on the planned sale of the retail banking business in France.

Capital increase

On 11 March 2022, the Shareholders Extraordinary General Meeting approved a capital increase of EUR 699.6 million, of which EUR 111 million in share capital, which was executed and recognised on 28 March 2022.

Issuances and repayments

On 23 March 2022, HSBC Continental Europe issued a EUR 250 million perpetual subordinated loan subscribed by HSBC Bank plc, callable five years after issuance, recognised as equity. See Note 2.

On 22 March 2022, HSBC SFH (France), a wholly owned subsidiary of HSBC Continental Europe, issued a EUR 1.25 billion covered bond with a maturity of five years, recognised as financial liabilities designated at fair value. On 28 June 2022, HSBC SFH (France) additionally issued a EUR 0.75 billion covered bond with a maturity of six years, recognised as debt securities in issue.

On 29 June 2022, HSBC Continental Europe repaid EUR 2.0 billion in Targeted Long-Term Refinancing Operations ('TLTRO') III funding which stood at EUR 9.2 billion as at 30 June 2022.

(h) Presentation of information

Information related to results by business segments ('IFRS 8') are disclosed in the management report on pages 11 to 18. Disclosures concerning the nature and extent of risks relating to financial instruments are in risk section on pages 19 to 39. These form an integral part of these condensed financial statements.

2 Dividends

There was no interim dividend distribution for the 2022 financial year during the first half of 2022.

The Ordinary General Meeting held on 11 March 2022 approved the recommendation of the Board of Directors, on 22 February 2022, not to distribute a dividend in respect of the year 2021.

Earnings and dividends per share

	Six months ended		
	30 Jun 2022	30 Jun 2021	31 Dec 2021
	€ per share	€ per share	€ per share
Basic earnings per share	**1.16**	1.56	1.18
Diluted earnings per share	**1.16**	1.56	1.18
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 127 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 109,893,082 (first half of 2021: profit of EUR 153 million and 98,231,196 weighted average number of shares; second half of 2021: profit of EUR 116 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 109,893,082 (first half of 2021: 98,231,196 shares; second half of 2021: 98,231,196 shares).

At 30 June 2022, no potentially dilutive ordinary share has been issued.

Other equity instruments

Total coupons on capital instruments classified as equity

		Six months ended		
		30 Jun 2022	30 Jun 2021	31 Dec 2021
	First call date	**€m**	€m	€m
Perpetual subordinated capital securities				
– EUR 200 million issued at 5.73%[1]	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
– EUR 250 million issued at Euribor+ 4.06%	March 2027	**2**	—	—
Total		**17**	15	15

1 *On 26 May 2022, the interest on the EUR 200 million perpetual subordinated security issued on 26 May 2017 at 4.56 per cent was revised to 5.73 per cent. The next call date is in May 2027.*

3 Net fee income

Net fee income

	Half-year to		
	30 Jun 2022	30 Jun 2021	31 Dec 2021
	€m	€m	€m
Account services	**74**	70	72
Funds under management	**107**	102	113
Cards	**19**	16	19
Credit facilities	**73**	73	78
Broking income	**16**	17	15
Unit trusts	**3**	3	3
Imports/exports	**8**	8	8
Remittances	**37**	25	46
Underwriting	**65**	96	47
Global custody	**22**	19	23
Insurance agency commission	**9**	9	10
Other[1]	**225**	204	228
Fee income	**658**	642	662
Less: fee expense	**(173)**	(185)	(204)
Net Fee income	**485**	457	458
Global business			
Wealth and Personal Banking	**136**	136	148
Commercial Banking	**135**	118	128
Markets and Securities Services	**61**	77	12
Global Banking	**154**	148	131
Global Banking and Markets Other	**—**	(22)	41
Corporate Centre	**(1)**	—	(2)

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 (France), 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 2022	Movement on full year 2021
	€m	€m
At 1 January	**677**	490
Change in PVIF of long-term insurance business	**123**	187
– value of new business written during the year	**27**	39
– expected return	**(28)**	(58)
– assumption changes and experiences variances	**124**	206
– other adjustment	**—**	—
Exchange difference and other	**—**	—
At the end of the period	**800**	677

The PVIF increased from EUR 677 million as of 31 December 2021 to EUR 800 million as of 30 June 2022. The increase of EUR 123 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.

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 2022	31 Dec 2021
	%	%
Weighted average risk free rate	**1.36**	0.69
Weighted average risk discount rate	**2.34**	1.55
Expenses inflation	**1.80**	1.80

1 *As at 30 June 2022, market value future profits' discounted rate used for the PVIF is 2.34 per cent, to which a risk margin of EUR 124.4 million was added. In 2021, market value future profits' discounted rate used for the PVIF was of 1.55 per cent, to which a risk margin of EUR 182.0 million was added.*

Sensitivity of the PVIF to changes in economic assumptions

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

	At	
	30 Jun 2022[1]	31 Dec 2021[1]
	€m	€m
+100 basis points shift in risk-free rate	**51**	152
- 100 basis points shift in risk-free rate	**(160)**	(295)
+100 basis points shift in risk-discount rate	**(21)**	(3)
- 100 basis points shift in risk-discount rate	**26**	2

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.

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 2022 to reasonable 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 2022[1]	Effect on total equity at 31 Dec 2021[1]
	€m	€m
10% increase in mortality and/or morbidity rates	**(20)**	(16)
10% decrease in mortality and/or morbidity rates	**21**	17
10% increase in lapse rates	**(28)**	(22)
10% decrease in lapse rates	**31**	25
10% increase in expense rates	**(34)**	(39)
10% decrease in expense rates	**34**	39

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 2021*.

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 2022							
Assets							
Trading assets	**13,314**	**1,426**	**10**	**14,750**	**—**	**—**	**14,750**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**2,926**	**6,024**	**2,319**	**11,269**	**266**	**—**	**11,535**
Derivatives	**87**	**37,899**	**80**	**38,066**	**14,440**	***88***	**52,506**
Financial investments	**8,187**	**5,930**	**1,029**	**15,146**	**157**	**—**	**15,303**
Liabilities							
Trading liabilities	**15,154**	**276**	**—**	**15,430**	**17**	**—**	**15,447**
Financial liabilities designated at fair value	**—**	**11,179**	**745**	**11,924**	**—**	**—**	**11,924**
Derivatives	**29**	**31,079**	**81**	**31,189**	**16,576**	***186***	**47,765**
At 31 Dec 2021							
Assets							
Trading assets	10,851	2,032	10	12,893	28	—	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	3,335	7,592	2,284	13,211	134	—	13,345
Derivatives	36	25,234	50	25,320	14,314	*68*	39,634
Financial investments	8,415	6,506	999	15,920	183	—	16,103
Liabilities							
Trading liabilities	15,872	369	—	16,241	6	—	16,247
Financial liabilities designated at fair value	—	13,068	665	13,733	—	—	13,733
Derivatives	20	22,958	93	23,071	12,824	*67*	35,895

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 2022							
Transfers from Level 1 to Level 2	**55**	**272**	**—**	**—**	**1**	**—**	**—**
Transfers from Level 2 to Level 1	**33**	**108**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2021							
Transfers from Level 1 to Level 2	431	288	901	—	—	—	—
Transfers from Level 2 to Level 1	285	418	465	—	6	—	—

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 2022									
Private equity including strategic investments	**31**	**—**	**2,090**	**—**	**2,121**	**—**	**—**	**—**	**—**
Asset-backed securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**745**	**—**	**745**
Derivatives	**—**	**—**	**—**	**80**	**80**	**—**	**—**	**81**	**81**
Other portfolios	**998**	**10**	**229**	**—**	**1,237**	**—**	**—**	**—**	**—**
HSBC Group subsidiaries	**—**	**—**	**—**	**88**	**88**	**—**	**—**	**186**	**186**
Total	**1,029**	**10**	**2,319**	**168**	**3,526**	**—**	**745**	**267**	**1,012**
At 31 Dec 2021									
Private equity including strategic investments	31	—	1,974	—	2,005	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—	—	—
Structured notes	—	—	—	—	—	—	664	—	664
Derivatives	—	—	—	50	50	—	—	93	93
Other portfolios	968	10	310	—	1,288	—	1	—	1
HSBC Group subsidiaries	—	—	—	68	68	—	—	67	67
Total	999	10	2,284	118	3,411	—	665	160	825

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 2022	**999**	**10**	**2,284**	**118**	**—**	**665**	**160**
Total gains/(losses) recognised in profit or loss	**—**	**—**	**62**	**26**	**—**	**(71)**	**119**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis[1]	**—**	**—**	**—**	**26**	**—**	**—**	**119**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**62**	**—**	**—**	**(71)**	**—**
– gains less losses from financial investments at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income	**(202)**	**—**	**—**	**—**	**—**	**—**	**—**
– financial investments: fair value gains/(losses)	**(202)**	**—**	**—**	**—**	**—**	**—**	**—**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchases	**346**	**3**	**162**	**—**	**—**	**—**	**—**
New Issuances	**—**	**—**	**—**	**—**	**—**	**24**	**—**
Sales	**(117)**	**(3)**	**(189)**	**—**	**—**	**(21)**	**—**
Settlements	**—**	**—**	**—**	**18**	**—**	**(22)**	**17**
Transfers out	**—**	**—**	**—**	**(7)**	**—**	**(57)**	**(59)**
Transfers in	**3**	**—**	**—**	**13**	**—**	**227**	**30**
At 30 Jun 2022	**1,029**	**10**	**2,319**	**168**	**—**	**745**	**267**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2022	**—**	**—**	**63**	**8**	**—**	**51**	**(107)**
– trading income/(expense) excluding net interest income	**—**	**—**	**—**	**8**	**—**	**—**	**(107)**
– net income/(expense) from other financial instruments designated at fair value	**—**	**—**	**63**	**—**	**—**	**51**	**—**

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 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	—	—	—	(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	—	—	—	(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 Jul 2021	1,029	35	2,218	477	—	580	219
Total gains/(losses) recognised in profit or loss	—	(1)	13	(103)	—	(20)	(35)
– net income from financial instruments held for trading or managed on a fair value basis	—	(1)	—	(103)	—	—	(35)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	13	—	—	(20)	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	(16)	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	(16)	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	417	2	110	—	—	1	—
New Issuances	—	—	—	—	—	101	—
Sales	(431)	(26)	(57)	—	—	(24)	—
Settlements	—	—	—	(284)	—	(1)	(84)
Transfer out	—	—	—	—	—	19	—
Transfer in	—	—	—	28	—	9	60
At 31 Dec 2021	999	10	2,284	118	—	665	160
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 Dec 2021	—	—	59	(14)	—	67	11
– trading income/(expense) excluding net interest income	—	—	—	(14)	—	—	11
– net income/(expense) from other financial instruments designated at fair value	—	—	59	—	—	67	—

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 2022				At 31 Dec 2021			
	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]	10	(10)	—	—	3	(3)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	180	(180)	—	—	119	(119)	—	—
Financial investments	—	—	81	(81)	—	—	54	(54)
HSBC Group subsidiaries	10	(10)	—	—	10	(10)	—	—
Total	200	(200)	81	(81)	132	(132)	54	(54)

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 2022				
Private equity investments including strategic investments	165	(165)	2	(2)
Asset-backed securities	—	—	—	—
Structured notes	2	(2)	—	—
Derivatives	10	(10)	—	—
Other portfolios	13	(13)	79	(79)
HSBC Group subsidiaries	10	(10)	—	—
Total	200	(200)	81	(81)
At 31 Dec 2021				
Private equity investments including strategic investments	110	(110)	2	(2)
Asset-backed securities	—	—	—	—
Structured notes	1	(1)	—	—
Derivatives	2	(2)	—	—
Other portfolios	9	(9)	52	(52)
HSBC Group subsidiaries	10	(10)	—	—
Total	132	(132)	54	(54)

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	Valuation technique	Key unobservable inputs	Lower	Higher
	€m	€m			%	%
At 30 Jun 2022						
Private equity including strategic investments	**2,121**	**—**	**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	**—**	**745**				
– equity-linked notes	**—**	**434**	**Model – Option model**	**Equity volatility**	**51**	**90**
	—	**—**	**Model – Option model**	**Equity Correlation**	**—**	**—**
– FX-linked notes	**—**	**—**	**Model – Option model**	**FX volatility**	**—**	**—**
– other	**—**	**311**				
Derivatives	**168**	**267**				
Interest rate derivatives	**77**	**133**				
– securitisation swaps	**1**	**2**	**Model – DCF[3]**	**Prepayment rate**	**50**	**50**
– long-dated swaptions	**—**	**—**	**Model – Option model**	**IR volatility**	**—**	**—**
– other	**76**	**131**				
Foreign exchange derivatives	**3**	**1**				
– foreign exchange options	**3**	**1**	**Model – Option model**	**FX volatility**	**—**	**18**
Equity derivatives	**88**	**117**				
– long-dated single stock options	**—**	**—**	**Model – Option model**	**Equity volatility**		
– other	**88**	**117**				
Credit derivatives	**—**	**16**				
– other	**—**	**16**				
Other portfolios	**1,237**	**—**				
Total Level 3	**3,526**	**1,012**				
At 31 Dec 2021						
Private equity including strategic investments	2,005	—	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	—	664				
– equity-linked notes	—	470	Model – Option model	Equity volatility	—	—
	—	—	Model – Option model	Equity Correlation	34	91
– FX-linked notes	—	—	Model – Option model	FX volatility	—	—
– other	—	194				
Derivatives	118	160				
Interest rate derivatives	55	63				
– securitisation swaps	3	—	Model – DCF[3]	Prepayment rate	50	50
– long-dated swaptions	—	—	Model – Option model	IR volatility	—	—
– other	52	63				
Foreign exchange derivatives	1	1				
– foreign exchange options	1	1	Model – Option model	FX volatility	4	97
Equity derivatives	62	96				
– long-dated single stock options	—	—	Model – Option model	Equity volatility	—	—
– other	62	96				
Credit derivatives						
– other	—	—				
Other portfolios	1,288	1				
Total Level 3	3,411	825				

1 *Including Level 3 balances with HSBC entities.*
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 2021.*

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 2021*.

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 2022					
Assets					
Loans and advances to banks	**5,985**	**—**	**5,989**	**—**	**5,989**
Loans and advances to customers	**57,717**	**—**	**—**	**57,853**	**57,853**
Reverse repurchase agreements – non-trading	**13,989**	**—**	**13,989**	**—**	**13,989**
Financial investments – at amortised cost	**7**	**—**	**—**	**7**	**7**
Liabilities					
Deposits by banks	**19,264**	**—**	**19,222**	**—**	**19,222**
Customer accounts	**66,911**	**—**	**66,905**	**—**	**66,905**
Repurchase agreements – non-trading	**9,722**	**—**	**9,722**	**—**	**9,722**
Debt securities in issue	**7,049**	**—**	**7,049**	**—**	**7,049**
Subordinated liabilities	**1,876**	**—**	**1,917**	**—**	**1,917**
At 31 Dec 2021					
Assets					
Loans and advances to banks	6,832	—	6,833	—	6,833
Loans and advances to customers	59,612	—	—	59,739	59,739
Reverse repurchase agreements – non-trading	20,487	—	20,487	—	20,487
Financial investments - at amortised cost	7	—	—	7	7
Liabilities					
Deposits by banks	18,548	—	18,488	—	18,488
Customer accounts	70,144	—	70,137	—	70,137
Repurchase agreements – non-trading	8,731	—	8,731	—	8,731
Debt securities in issue	7,414	—	7,414	—	7,414
Subordinated liabilities	1,876	—	1,938	—	1,938

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 tests goodwill for impairment as at 31 December each year and whenever there is an indication that it may be impaired. At 30 June 2022, 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 Business disposals

Planned sale of the retail banking business in France

On 25 November 2021, HSBC Continental Europe signed a Framework Agreement with Promontoria MMB and its subsidiary *Banque des Caraïbes SA*, regarding the planned sale of HSBC Continental Europe's retail banking business in France.

The sale, which is subject to regulatory approvals and the satisfaction of other relevant conditions, includes: HSBC Continental Europe's French retail banking business; the *Crédit Commercial de France ('CCF')* brand; and HSBC Continental Europe's 100 per cent ownership interest in HSBC SFH (France) and its 3 per cent ownership interest in *Crédit Logement*. The sale would generate a pre-tax loss including related transaction costs for HSBC Continental Europe now estimated at EUR 2 billion.

At 30 June 2022, a deferred tax liability of EUR 0.4 billion continued to be recognised as a consequence of the temporary difference in tax and accounting treatment in respect of the provision for loss on disposal, which was deductible in the French tax return in 2021 but will be accounted for when the disposal group is classified as held for sale in accordance with IFRS 5, at which time the deferred tax liability will reverse. The vast majority of the estimated loss for the write-down of the disposal group to fair value less costs to sell will also be recognised when it is classified as held for sale. Subsequently, the disposal group will be re-measured at the lower of carrying amount and fair value less costs to sell at each reporting period. Any remaining gain or loss not previously recognised shall be recognised at the date of derecognition which is currently anticipated to be in 2023.

As at 30 June 2022, the value of the total assets of the business to be sold was EUR 24.6 billion, including EUR 22.1 billion of customer loan balances and the value of customer accounts was EUR 20.7 billion. See page 4 'HSBC strategy implemented in Continental Europe'.

Planned sale of the Greece branch operations

On 24 May 2022, HSBC Continental Europe signed a Sale and Purchase Agreement ('SPA') for the sale of its branch operations in Greece to Pancreta Bank SA. This followed the completion of the works council consultations. Completion of the potential transaction is subject to regulatory approval and is currently expected to finalise in the first half of 2023.

As at 30 June 2022, EUR 2.1 billion in total assets, including EUR 0.4 billion of customer loan balances, and EUR 2.3 billion in total liabilities, including EUR 2.2 billion of customer accounts, were reclassified as held for sale in accordance with IFRS 5 and losses and impairments of EUR 111 million were recognised largely in Other operating income.

The major classes of assets and associated liabilities of disposal groups held for sale are as follows:

	At 30 Jun 2022 €m
Assets of disposal groups held for sale	
Cash and balances at central banks	**1,425**
Trading Assets	**28**
Loans and advances to banks	**28**
Loans and advances to customers	**375**
Financial Investment	**352**
Prepayments,accrued income and other assets[1]	**(84)**
Total assets	**2,124**

1 *Including unallocated loss for the write down of the disposal group to fair value less costs to sell of EUR (94) million.*

	At 30 Jun 2022 €m
Liabilities of disposal groups held for sale	
Deposits by banks	**7**
Customer accounts	**2,212**
Accruals, deferred income and other liabilities	**36**
Total liabilities	**2,255**

9 Provisions

	Restructuring costs €m	Legal proceedings and regulatory matters €m	Other provisions €m	Total €m
Provisions (excluding contractual commitments)				
At 31 Dec 2021	136	20	23	179
Additions	**1**	**2**	**18**	**21**
Amounts utilised	**(55)**	**(4)**	**(8)**	**(67)**
Unused amounts reversed	**—**	**—**	**(2)**	**(2)**
Reclassified to held for sale				
Exchange and other movements	**—**	**—**	**(2)**	**(2)**
At 30 Jun 2022	**82**	**18**	**29**	**129**
Contractual commitments[1]				
At 31 Dec 2021				55
Net change in expected credit loss provisions and other movements[2]				**(15)**
At 30 Jun 2022				**40**
Total provisions				
At 31 Dec 2021				234
At 30 Jun 2022				**169**

1 *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'.*

2 *Includes EUR 10 million reclassified as held for sale.*

Information relating to legal proceedings and regulatory matters related to HSBC Group entities can be found in Note 11.

10 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2022	31 Dec 2021
	€m	€m
Guarantees and contingent liabilities		
– financial guarantees	**875**	9,614
– performance and other guarantees	**11,596**	10,546
– other contingent liabilities	**—**	—
At the end of the period	**12,471**	20,160
Commitments[1]		
– documentary credits and short-term trade-related transactions	**1,427**	976
– forward asset purchases and forward deposits placed	**41,937**	34,472
– standby facilities, credit lines and other commitments to lend	**57,506**	53,872
At the end of the period	**100,870**	89,320

1 *Includes EUR 99,955 million of commitments at 30 June 2022 (31 December 2021: EUR 87,630 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.

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

HSBC Group entities, including HSBC Continental Europe, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 'Legal risks and litigation management' on pages 162 and 163 of the *Universal Registration Document 2021*, HSBC Continental Europe considers that none of these matters is significant. HSBC Continental Europe recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 30 June 2022.

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. For several years thereafter, HSBC retained a 'Skilled Person' under section 166 of the Financial Services and Markets Act, and an 'Independent Consultant' under the FRB cease-and-desist order to produce periodic assessments of the Group's AML and sanctions compliance programme.

The Skilled Person completed its engagement in the second quarter of 2021, and the FCA determined that no further Skilled Person work is required. Separately, the Independent Consultant has completed its latest review pursuant to the FRB cease-and-desist order, which remains in place.

Bernard L. Madoff Investment Securities LLC

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

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

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

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

The Madoff-related proceedings HTIE and/or its subsidiary Somers Dublin DAC are involved in are described below:

US litigation:

The Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court'), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined.

Following an initial dismissal of certain claims, which was later reversed on appeal, the cases were remanded to the US Bankruptcy Court, where they are now pending.

European interbank offered rates investigations

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

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

12 Transactions with related parties

On 23 March 2022, HSBC Continental Europe issued a EUR 250 million perpetual subordinated loan subscribed by HSBC Bank plc, callable five years after issuance, recognised as equity.

There were no other changes to the related party transactions described in the *Universal Registration Document 2021* 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 2022.

13 Changes in consolidation perimeter during the first half-year of 2022

There were no material changes in the composition of HSBC Continental Europe in the half-year to 30 June 2022.

14 Events after the balance sheet date

On 20 July 2022, the Board of Directors convened an Extraordinary General Meeting on 2 September 2022 to propose a share capital increase of EUR 1,300 million.

There have been no other significant events between 30 June 2022 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

43-47, avenue de la Grande-Armée

75116 Paris

For the period from 1 January 2022 to 30 June 2022

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 General meetings 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 2022 to 30 June 2022;
- the verification of the information contained in the interim management report.

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 standard of IFRS as adopted by the European Union 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 1, 2022

French original signed by

PricewaterhouseCoopers Audit	**BDO Paris**
Agnès Hussherr	Arnaud Naudan

Person responsible for the Universal Registration Document and its amendments

Mr Andrew Wild, Chief Executive Officer.

Statement by the 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 18 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, 1 August 2022

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[3,4] Represented by Arnaud Naudan[5] 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 *Previous corporate name: BDO Paris Audit & Advisory.*
5 *BDO Paris 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 2021* D.22-0053.

Sections of Annex I of the 2019/980 delegated regulation		Pages in the 2021 Universal Registration Document filed with the AMF on 23 Feb 2022	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 289	page 82
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 290	page 83
3	**Risk factors**	pages 87 to 174	pages 19 to 61
4	**Information about the issuer**	page 286	N/A
5	**Business overview**		
5.1	Principal activities	pages 4 to 21 and 247	pages 4 to 18
5.2	Principal markets	pages 4 to 21 and 247	pages 4 to 18
5.3	Important events	pages 193 to 194, 247 to 248	page 69
5.4	Strategy and objectives	pages 4 to 12	pages 4 to 10
5.5	Potential dependence	N/A	N/A
5.6	Founding elements of any statement by the issuer concerning its position	pages 4 and 21	page 4
5.7	Investments	pages 235 to 237, 280 to 283, 293 to 294	N/A
6	**Organisational structure**		
6.1	Brief description of the group	pages 3 to 22, 271 to 272 and 280 to 283	N/A
6.2	Issuer's relationship with other group entities	pages 280 to 282	N/A
7	**Operating and financial review**		
7.1	Financial condition	pages 176, 178, 245 to 246	pages 62 and 64
7.2	Operating results	pages 13 to 21, 176 and 245	pages 11 to 18 and 62
8	**Capital resources**		
8.1	Issuer's capital resources	pages 180 and 263	page 66
8.2	Sources and amounts of the issuer's cash flows	page 179	page 65
8.3	Borrowing requirements and funding structure	pages 87, 142 to 144, 146 to 148	pages 37 to 38, 58 to 60
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 12 and 155	pages 9 to 10
10	**Trend information**	pages 4 to 7	pages 4 to 8
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 24 to 32	N/A
12.2	Administrative and management bodies conflicts of interests	pages 40 to 41	N/A
13	**Remuneration and benefits**		
13.1	Amount of remuneration paid and benefits in kind granted	pages 41 to 51, 197 to 201	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 41 to 51, 197 to 201, 263 to 264	N/A
14	**Board practices**		
14.1	Date of expiration of the current term of office	pages 24 to 32	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 35 to 36, 38 to 39	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 197	page 18
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 286 to 288	N/A
16.2	Different voting rights	page 286	N/A
16.3	Control of the issuer	pages 24 to 25 and 290	page 83
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

Sections of Annex I of the 2019/980 delegated regulation		Pages in the 2021 Universal Registration Document filed with the AMF on 23 Feb 2022	Pages in this amendment to the Universal Registration Document
17	**Related party transactions**	pages 52 to 53, 233 to 234, 235 to 237, 271 to 272	page 80
18	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information	pages 21, 175 to 237, 244 to 272, 292	N/A
18.2	Interim and other financial information	N/A	pages 62 to 80
18.3	Auditing of historical annual financial information	pages 238 to 243 and 273 to 277	N/A
18.4	Pro forma financial information	N/A	N/A
18.5	Dividend policy	pages 203 and 288	page 69
18.6	Legal and arbitration proceedings	pages 162 to 163, 232 to 233, 269 to 270	pages 79 to 80
18.7	Significant change in the issuer's financial position	pages 20, 234 to 235 and 270	page 80
19	**Additional information**		
19.1	Share capital	pages 230 to 231, 262 and 288	N/A
19.2	Memorandum and Articles of Association	pages 286 to 288	N/A
20	**Material contracts**	page 288	N/A
21	**Documents available**	page 286	N/A

Sections of Annex II of the 2019/980 delegated regulation		Pages in the 2021 Universal Registration Document filed with the AMF on 23 Feb 2022	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 2020 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 164 to 230 and 231 to 236 of the reference document D.21-0075 filed with the AMF on 24 February 2021; the information can be found here: https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2020/annual-results/hsbc-continental-europe/210224-hbce-urd-2020-fr.pdf
- the consolidated financial statements for the year ended 31 December 2021 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 175 to 237 and 238 to 243 of the Universal Registration Document D.22-0053 filed with the AMF on 23 February 2022; the information can be found here: https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2021/annual/pdfs/hsbc-continental-europe/220223-registration-document-and-annual-financial-report-2021-french.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:

HSBC Continental Europe

38, avenue Kléber

75116 Paris

France

Management report	
Main events occurring during the first six months of 2022	pages 3 and 11 to 18
Main risks and uncertainties	pages 19 to 61
Principal related party transactions	page 80
Condensed consolidated financial statements	pages 62 to 80
Report of the Statutory Auditors on the interim financial information at 30 June 2022	page 81
Statement by person responsible	page 82

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