HSBC Continental Europe

Pillar 3 Disclosures at 30 June 2023

HSBC

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Certain defined terms

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

Introduction

Regulatory framework for disclosures

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

Throughout 2023 HSBC Continental Europe has calculated capital on a consolidated basis for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the EU in the amended Capital Requirements Regulation and Directive, collectively known as CRR/CRD.

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

Pillar 3 disclosures

Purpose

The information contained in this document is for HSBC Continental Europe. It should be read in conjunction with HSBC Continental Europe's *Universal Registration Document 2022* and *Interim Financial Report 2023*.

These disclosures are governed by the HSBC Group's disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. This Pillar 3 document has been subject to internal review process in accordance with HSBC Continental Europe's financial reporting and governance processes.

Key regulatory developments

The Basel III reforms

The Basel III reforms introduce significant changes to the way firms calculate risk-weighted assets ('RWAs') across all risk types. In Europe, a first draft of the rules implementing the reforms in the European Union ('EU') (the third Capital Requirement Regulation 'CRR3' or the sixth Capital Requirement Directive 'CRD6') was published by the European Commission at the end of 2021, with a proposed implementation date of 1st January 2025. These rules include significant deviations from the original guidelines issued by the Basel Committee on Banking Supervision and have been subject to intense negotiations between the main legislative parties. This process, known as 'trialogue negotiations', started in March 2023 and led to a provisional agreement on 26 June 2023. The publication of the final text is expected by the end of 2023, following further technical discussions in the coming months.

In March, HSBC responded to the Prudential Regulation Authority's consultation on the implementation of the Basel III reforms in the UK, with a proposed implementation date of 1 January 2025. The new rules will apply to HSBC Group at a consolidated level and may therefore affect indirectly HSBC Continental Europe.

Interest Rate Risk in the Banking Book ('IRRBB')

In 2022, the EBA published its final draft Regulatory Technical Standards on the IRRBB Supervisory Outlier Test. These standards redefine a large decline of the Net Interest Income as a fall exceeding 2.5% of Tier 1 Capital. The EBA is yet to publish the final version, replacing the original definition (a range of 2.5% to 5% of Tier 1 Capital).

Environmental, social and governance ('ESG') risks

In the EU, regulators continue to publish proposals and discussion papers on ESG topics, including the extent to which climate risks are captured and dealt with in the prudential framework. Recent proposals cover a number of areas including European Green Bond regulations and securitisation, taxonomy for non-climate environmental objectives, disclosure and sustainability reporting standards, and ESG ratings.

Significant events

Repayments and new issuances

In January 2023, HSBC Continental Europe issued Senior Non Preferred Notes with maturity of six years for a notional amount of EUR 500million. In June 2023, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturity of six and twenty years for a total notional amount of EUR 585 million, subscribed by HSBC Bank plc, recognised as debt securities in issue.

In March 2023, HSBC Continental Europe processed a redemption of EUR 1.25 billion of Senior Preferred Bonds accounted as financial liabilities designated at fair value.

On 28 June 2023, HSBC Continental Europe repaid EUR 2.1 billion in Targeted Long-Term Refinancing Operations ('TLTRO') III funding which now amounts to EUR 1.1 billion as at 30 June 2023.

Business disposals and changes of control

Planned sale of the retail banking operations in France

On 25 November 2021, HSBC Continental Europe signed a framework agreement with Promontoria MMB SAS ('My Money Group') and its subsidiary Banque des Caraïbes SA, regarding the planned sale of HSBC Continental Europe's retail banking operations in France. The sale, which is subject to information and consultation processes with respective works councils, regulatory approvals and the satisfaction of other relevant conditions, included: HSBC Continental Europe's French retail banking operations; 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.

During 1Q23, the completion of the planned transaction became less certain. This was due to a significant rise in interest rates in France, which is expected to increase the amount of capital required by the buyer on completion. Given the completion of the sale had become less certain we were required by IFRS 5 to change the accounting classification of our retail banking operations in France to be no longer classified as held for sale, resulting in a EUR 2.0 billion reversal of the previously recognised impairment in respect of the sale.

On 14 June 2023, HSBC Continental Europe signed a further Memorandum of Understanding with the buyer regarding certain potential changes to the terms of the sale which are designed to enable the buyer to satisfy its future capital requirements and to obtain regulatory approval for the transaction. The potential changes foresee: the retention of EUR 7.0 billion of home and other loans by HSBC that were originally planned to transfer as part of the sale, the inclusion in the perimeter for sale of a cash amount equivalent to the carrying value of the retained portfolio of loans, and the setting of the net asset value of the transferred business by reference to relevant prevailing rates at completion. In addition, depending on the prevailing rates at completion, HSBC Continental Europe may receive a profit participation interest in exchange for investing capital into the top holding company of My Money Group, such that the aggregate of the actual net asset value delivered at completion and the investment made in the profit participation interest would not exceed EUR 1.768 billion. The potential changes also foresee the retention of the CCF brand and the entry into a long term agreement to license it to the buyer and certain enhancements to the insurance and asset management distribution agreements with the buyer. The transaction remains subject to information and consultation processes with respective works councils and regulatory approvals, and the parties aim to complete on 1 January 2024.

Taking into account the potential changes, the transaction is expected to result in the recognition of a pre-tax loss on sale estimated up to EUR 2.0 billion upon reclassification of the business as held for sale. This is expected during the second half of 2023 provided sufficient progress is demonstrated to support the appropriate level of probability of successful completion. Once that threshold is achieved, the disposal group will be reclassified as held for sale will be remeasured at the lower of carrying amount and fair value less costs to sell at each reporting period. Any remaining gains or losses not previously recognised, including the reversal of any remaining deferred tax assets and liabilities, will be recognised on completion.

As at 30 June 2023, a deferred tax liability of EUR 0.4 billion was 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.

Planned sale of the Greece Branch operations

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. In the second quarter of 2022, we recognised a loss of EUR 0.1billion upon reclassification as held for sale in accordance with IFRS 5. At 30 June 2023 the disposal group included EUR 0.3 billion of loans and advances to customers and EUR 1.3 billion of customer accounts. The disposal completed in July 2023.

Conversion of HSBC Trinkaus & Burkhardt GmbH

In June, the business and staff of HSBC Trinkaus & Burkhardt GmbH have been transferred to a branch of HSBC Continental Europe.

For more details of these and other significant events please refer to Note 1 'Significant events during the first half-year' of the consolidated Financial Statements section on page 56 of HSBC Continental Europe's *Interim Financial Report 2023*.

Table 1: Key metrics template ('KM1')

Ref*		At 30 Jun 2023 €m	31 Mar 2023 €m	31 Dec 2022 €m	30 Sep 2022 €m	30 Jun 2022 €m
	Available own funds (amounts)					
1	Common Equity Tier 1 ('CET1') capital	**8,998**	9,066	8,970	5,950	6,557
2	Tier 1 capital	**10,443**	10,424	10,320	6,948	7,554
3	Total capital	**11,986**	11,902	11,806	8,111	8,960
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**58,634**	59,710	58,561	47,858	47,893
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)					
5	Common Equity Tier 1 ratio	**15.3**	15.2	15.3	12.4	13.7
6	Tier 1 ratio	**17.8**	17.5	17.6	14.5	15.8
7	Total capital ratio	**20.4**	19.9	20.2	16.9	18.7
	Additional own funds requirements to address risks other than the risk of excessive leverage (%) (as a percentage of risk-weighted exposure amount) (%)					
EU-7a	Additional own funds requirements to address risks other than the risk of excessive leverage	**3.4**	3.4	3.2	3.2	3.2
EU-7b	– *of which:* *to be made up of CET1 capital (percentage points)*	***1.9***	*1.9*	*1.8*	*1.8*	*1.8*
EU-7c	*to be made up of Tier 1 capital (percentage points)*	***2.6***	*2.6*	*2.4*	*2.4*	*2.4*
EU-7d	Supervisory review and evaluation process ('SREP') own funds requirements	**11.4**	11.4	11.2	11.2	11.2
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount) (%)					
8	Capital conservation buffer	**2.5**	2.5	2.5	2.5	2.5
9	Institution-specific countercyclical capital buffer	**0.6**	0.3	0.1	0.1	—
EU-10a	Other Systemically Important Institution buffer[1]	**0.3**	0.3	0.3	0.3	0.3
11	Combined buffer requirement	**3.4**	3.0	2.9	2.8	2.8
EU-11a	Overall capital requirements	**14.7**	14.4	14.1	14.1	14.0
12	CET1 available after meeting the total SREP own funds requirements	**3.9**	3.8	4.1	1.2	2.5
	Leverage ratio					
13	Total exposure measure	**242,826**	244,506	238,144	193,354	191,759
14	Leverage ratio (%)	**4.3**	4.3	4.3	3.6	3.9
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount) (%)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage	**—**	—	—	—	—
EU 14b	– *of which: to be made up of CET1 capital (percentage points)*	**—**	—	—	—	—
EU-14c	Total SREP leverage ratio requirements (%)	**3.0**	3.0	3.0	3.0	3.0
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure) (%)					
EU-14d	Leverage ratio buffer requirement	**—**	—	—	—	—
EU-14e	Overall leverage ratio requirements	**3.0**	3.0	3.0	3.0	3.0
	Liquidity Coverage Ratio ('LCR')					
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	**66,031**	59,303	52,471	47,120	48,352
EU-16a	Cash outflows – Total weighted value	**64,977**	57,524	50,304	44,532	44,410
EU-16b	Cash inflows – Total weighted value	**23,486**	19,332	15,511	11,568	11,003
16	Total net cash outflows (adjusted value)	**41,491**	38,192	34,793	32,964	33,407
17	Liquidity coverage ratio (%)	**159**	154	150	144	145
	Net Stable Funding Ratio ('NSFR')					
18	Total available stable funding	**95,258**	90,853	87,799	84,338	82,069
19	Total required stable funding	**69,181**	67,500	64,882	63,882	63,760
20	NSFR ratio (%)	**138**	135	135	132	129

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

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

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

		At 30 Jun 2023		At 31 Mar 2023		At 31 Dec 2022	
		RWAs	**Capital requirement[1]**	RWAs	Capital requirement[1]	RWAs	Capital requirement[1]
		€m	**€m**	€m	€m	€m	€m
1	**Credit risk (excluding CCR)[2]**	**41,988**	**3,359**	43,111	3,449	42,303	3,384
2	– standardised approach	**8,943**	**715**	11,405	912	12,058	965
3	– foundation IRB approach	**7,410**	**593**	8,182	655	8,210	657
4	– slotting approach	**347**	**28**	297	24	350	28
EU 4a	– equities under the simple risk-weighted approach	**959**	**77**	784	63	884	71
4	– advanced IRB approach	**22,045**	**1,764**	22,443	1,795	20,801	1,664
6	**Counterparty credit risk ('CCR')**	**6,098**	**488**	5,589	447	6,036	483
7	– standardised approach	**3,117**	**249**	2,875	230	3,003	240
8	– internal model method ('IMM')	**1,435**	**115**	1,504	120	1,586	127
EU-8a	– exposures to a central counterparty ('CCP')	**135**	**11**	128	10	111	9
EU-8b	– credit valuation adjustment ('CVA')	**780**	**62**	747	60	777	62
9	– other CCR	**631**	**51**	334	27	559	45
15	**Settlement risk**	**1**	**—**	3	—	12	1
16	**Securitisation exposures in the non-trading book**	**1,072**	**86**	1,094	88	1,051	84
17	– internal ratings-based approach ('SEC-IRBA')	**544**	**44**	542	43	544	44
18	– external ratings-based approach ('SEC-ERBA') (including IAA)	**299**	**24**	317	25	332	27
19	– standardised approach ('SEC-SA')	**229**	**18**	235	19	174	14
20	**Position, foreign exchange and commodities risks (Market risk)**	**3,798**	**304**	4,236	339	3,482	279
21	– standardised approach	**104**	**8**	81	6	122	10
22	– internal model approach	**3,693**	**295**	4,154	332	3,360	269
23	**Operational risk**	**5,677**	**454**	5,677	454	5,677	454
EU-23b	– standardised approach	**5,677**	**454**	5,677	454	5,677	454
29	**Total**	**58,634**	**4,691**	59,710	4,777	58,561	4,685
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	**2,773**	**222**	3,113	249	3,514	281

1 *'Capital required', here and in all tables where the term is used, represents the Pillar 1 capital charge at 8 per cent of RWAs.*
2 *'Credit Risk', here and in all tables where the term is used, excludes counterparty credit risk.*

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

		Quarter ended			
		30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022
		€m	€m	€m	€m
1	**Opening RWAs at start of quarter**	**30,922**	29,361	26,132	26,115
2	Asset size	**(1,597)**	492	(1,348)	(36)
3	Asset quality	**477**	—	39	—
4	Model updates	**—**	—	—	(1,685)
5	Methodology and policy	**—**	1,069	—	—
6	Acquisitions and disposals	**—**	—	6,654	—
8	Other	**—**	—	(2,116)	1,738
9	**Closing RWAs at end of quarter**	**29,802**	30,922	29,361	26,132

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

		Quarter ended			
		30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022
		€m	€m	€m	€m
1	**Opening RWAs at start of quarter**	**1,506**	1,588	2,784	2,428
2	Asset size	**(46)**	(70)	(1,106)	421
3	Asset quality	**(22)**	(20)	(90)	(65)
7	Foreign exchange movements	**(1)**	7	—	—
9	**Closing RWAs at end of quarter**	**1,437**	1,506	1,588	2,784

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

		VaR	SVaR	IRC	CRM	Other	Total RWAs	Total own funds requirements
		€m	€m	€m	€m	€m	€m	€m
1	**RWAs at 1 Apr 2023**	**1,163**	**1,717**	**432**	**—**	**843**	**4,155**	**332**
2	Movement in risk levels	**(245)**	**(152)**	**150**	**—**	**124**	**(123)**	**(36)**
3	Model updates/changes					**(339)**	**(339)**	**(27)**
8	**RWAs at 30 Jun 2023**	**918**	**1,565**	**582**	**—**	**628**	**3,693**	**296**
1	RWAs at 1 Jan 2023	1,039	1,293	258	—	769	3,359	269
2	Movement in risk levels	124	424	174	—	74	796	63
8	RWAs at 31 Mar 2023	1,163	1,717	432	—	843	4,155	332
1	RWAs at 1 Oct 2022	602	1,158	407	—	857	3,024	242
2	Movement in risk levels	271	(157)	(149)	—	(105)	(140)	(11)
5	Acquisitions and disposals	166	292	—	—	17	475	38
8	RWAs at 31 Dec 2022	1,039	1,293	258	—	769	3,359	269
1	RWAs at 1 Jul 2022	468	1,319	502	—	921	3,210	257
2	Movement in risk levels	134	(161)	(95)	—	(64)	(186)	(15)
8	RWAs at 30 Sep 2022	602	1,158	407	—	857	3,024	242

Linkage to the Universal Registration Document 2022 and Interim Financial Report 2023

Basis of consolidation

The basis of consolidation for financial accounting under International Financial Reporting Standards ('IFRS'), described in Note 1 of HSBC Continental Europe's 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 their assets and liabilities, leaving HSBC Continental Europe's investment in these insurance subsidiaries to be recorded at net asset value and deducted from CET1 (subject to thresholds). The comparatives for 31 December 2022 have been restated for the impact of IFRS17 implementation on 1 January 2023.

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

	Ref †	Accounting balance sheet €m	De-consolidation of insurance/ other entities €m	Equity accounting for insurance subsidiaries €m	Regulatory balance sheet €m
Assets					
Cash and balances at central banks		**58,908**	—	—	**58,908**
Items in the course of collection from other banks		**199**	—	—	**199**
Trading assets		**15,560**	—	—	**15,560**
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**12,982**	(12,754)	—	**228**
Derivatives		**52,804**	(73)	—	**52,731**
Loans and advances to banks		**9,388**	(368)	—	**9,020**
Loans and advances to customers		**62,537**	—	—	**62,537**
– *of which:* *impairment allowances on IRB portfolios*		***677***			***677***
impairment allowances on standardised portfolios		***183***			***183***
Reverse repurchase agreements – non-trading		**26,305**	—	—	**26,305**
Financial investments		**19,564**	(8,499)	—	**11,065**
Capital invested in insurance and other entities			514	464	**978**
Assets held for sale		**1,241**	—	—	**1,241**
Prepayments, accrued income and other assets		**26,924**	(902)	—	**26,022**
– *of which: retirement benefit assets*			—	—	—
Current tax assets		**224**	(19)	—	**205**
Interests in associates and joint ventures		—	—	—	—
Goodwill and intangible assets	*f*	**147**	(1)	—	**146**
Deferred tax assets	*g*	**621**	(77)	—	**544**
Total assets at 30 June 2023		**287,404**	(22,179)	464	**265,689**
Liabilities and equity					
Deposits by banks		**9,033**	(24)	—	**9,009**
Customer accounts		**104,183**	68	—	**104,251**
Repurchase agreements – non-trading		**12,961**	—	—	**12,961**
Items in the course of transmission to other banks		**306**	—	—	**306**
Trading liabilities		**21,211**	—	—	**21,211**
Financial liabilities designated at fair value		**10,647**	591	—	**11,238**
Derivatives		**49,365**	(43)	—	**49,322**
Debt securities in issue		**10,192**	—	—	**10,192**
Accruals, deferred income and other liabilities		**31,485**	(1,405)	—	**30,080**
Liabilities of disposal groups held for sale		**1,358**	—	—	**1,358**
Current tax liabilities		**143**	(12)	—	**131**
Liabilities under insurance contracts		**20,942**	(20,942)	—	—
Provisions		**236**	(8)	—	**228**
– *of which:* *credit-related provisions on IRB portfolios*		***72***	—	—	***72***
credit-related provisions on standardised portfolios		***12***	—	—	***12***
Deferred tax liabilities	*g*	**4**	(1)	—	**3**
Subordinated liabilities	*k*	**2,013**	—	—	**2,013**
– *of which:* *perpetual subordinated debt included in tier 2 capital*		***16***	—	—	***16***
term subordinated debt included in tier 2 capital		***1,997***	—	—	***1,997***
Total liabilities at 30 June 2023		**274,079**	(21,776)	—	**252,303**
Called up share capital	*a*	**1,062**	(28)	—	**1,034**
Share premium account	*a, b*	**5,264**	—	—	**5,264**
Other equity instruments	*j*	**1,433**	—	—	**1,433**
Other reserves	*c, d, e, h*	**1,272**	61	—	**1,333**
Retained earnings	*c, d, e, i*	**4,140**	(435)	464	**4,169**
Total shareholders' equity		**13,171**	(402)	—	**12,769**
Non-controlling interests	*l, m*	**154**	—	—	**154**
Total equity at 30 June 2023		**13,325**	(403)	464	**13,386**
Total liabilities and equity at 30 June 2023		**287,404**	*(22,179)*	*464*	***265,689***

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

	Ref †	Accounting balance sheet €m	De-consolidation of insurance/ other entities €m	Equity accounting for insurance subsidiaries €m	Regulatory balance sheet €m
Assets					
Cash and balances at central banks		59,734	—	—	59,734
Items in the course of collection from other banks		476	—	—	476
Trading assets		13,777	—	—	13,777
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		12,170	(11,988)	—	182
Derivatives		59,960	(237)	—	59,723
Loans and advances to banks		7,233	(361)	—	6,872
Loans and advances to customers		42,340	—	—	42,340
– *of which:* *impairment allowances on IRB portfolios*		*(720)*	—	—	*(720)*
impairment allowances on standardised portfolios		*(189)*	—	—	*(189)*
Reverse repurchase agreements – non-trading		15,374	—	—	15,374
Financial investments		19,135	(8,589)	—	10,546
Capital invested in insurance and other entities			514	395	909
Assets held for sale		23,761	—	—	23,761
Prepayments, accrued income and other assets		23,548	(826)		22,722
Current tax assets		330	(34)	—	296
Interests in associates and joint ventures		—	—	—	—
Goodwill and intangible assets	f	140	(1)	—	139
Deferred tax assets	g	1,103	(79)	—	1,024
Total assets at 31 December 2022		279,081	(21,601)	395	257,875
Liabilities and equity					
Deposits by banks		11,182	(12)	—	11,170
Customer accounts		83,692	93	—	83,785
Repurchase agreements – non-trading		6,655	—	—	6,655
Items in the course of transmission to other banks		528	—	—	528
Trading liabilities		17,509	—	—	17,509
Financial liabilities designated at fair value		9,049	474	—	9,523
Derivatives		55,726	(20)	—	55,706
Debt securities in issue		6,861	—	—	6,861
Accruals, deferred income and other liabilities		25,656	(1,330)	—	24,326
Liabilities of disposal groups held for sale		27,855	—	—	27,855
Current tax liabilities		112	(1)	—	111
Liabilities under insurance contracts		20,439	(20,439)	—	—
Provisions		286	(4)	—	282
– *of which:* *credit-related provisions on IRB portfolios*		*126*	—	—	*126*
credit-related provisions on standardised portfolios		*15*	—	—	*15*
Deferred tax liabilities	g	3		—	3
Subordinated liabilities	k	2,023	—	—	2,023
– *of which:* *perpetual subordinated debt included in tier 2 capital*		*16*	—	—	*16*
term subordinated debt included in tier 2 capital		*2,007*	—	—	*2,007*
Total liabilities at 31 December 2021		267,576	(21,238)	—	246,338
Called up share capital	a	1,062	(28)	—	1,034
Share premium account	a, b	5,264	—	—	5,264
Other equity instruments	j	1,433	—	—	1,433
Other reserves	c, d, e, h	1,262	65	—	1,327
Retained earnings	c, d, e, i	2,338	(400)	395	2,333
Total shareholders' equity		11,359	(363)	395	11,391
Non-controlling interests	l, m	146	—	—	146
Total equity at 31 December 2022		11,505	(363)	395	11,537
Total liabilities and equity at 31 December 2022		279,081	(21,601)	395	257,875

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

†† *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*

Capital and Leverage

Capital management

Approach and policy

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

HSBC Continental Europe manages its capital to ensure that it exceeds current and expected future requirements. Throughout the first half of 2023, HSBC Continental Europe has complied with the ECB's regulatory capital adequacy requirements. To achieve this, HSBC Continental Europe manages its capital within the context of an annual capital plan which is approved by the Board and which determines the appropriate amount and mix of capital. Complementing this capital plan, regular forecasts of capital, leverage and RWA positions are produced throughout the year.

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

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

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

The following risks managed through the capital management framework have been identified as material: credit risk, market risk, operational risk, interest rate risk in the banking book, FX risk, insurance risk, pension risk, capital risk, funding risk, strategic risk, climate change risk and model risk.

Stress testing

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

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

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

Risks to capital

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

Further explanation of model risk can be found in the Risk section on pages 98, 113 and 165 of HSBC Continental Europe's *Universal Registration Document 2022*.

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

Risk-weighted asset targets

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

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

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

Capital generation

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

Regulatory Requirements

The minimum capital requirement under Pillar 2 ('P2R') for HSBC Continental Europe on a consolidated basis has increased in February 2023 and is set at 3.4 per cent. Under CRD, the P2R should be held in the form of 56.25 per cent of CET1 and 75 per cent of Tier 1, as a minimum.

At the end of June 2023, HSBC Continental Europe is required to meet on a consolidated basis a minimum total capital ratio of at least 14.75 per cent. This requirement increased in 2023 with the increase in P2R mentioned above as well as with the French Countercyclical Buffer ('CCyB') increasing from 0 per cent to 0.5 per cent from April 2023 as announced by the French High Council for Financial Stability, with the increase of the German CCyB from 0 per cent to 0.75 per cent from February 2023 and with the increase of the Dutch CCyB from 0 per cent to 1 per cent from May 2023.

The Overall Capital Requirement ('OCR') is composed of the 8 per cent minimum capital in respect of article 92.1 of CRR, the 2.5 per cent for the Capital Conservation buffer (CCB) in respect of article 129 of the 2013/36 Directive, the 0.6 per cent Countercyclical buffer (CCyB), the 0.25 per cent Other Systematically Important Institution buffer ('O-SII') in force since 1 January 2022 as per the decision from the ACPR and the 3.4 per cent Pillar 2 requirement mentioned above.

As at 30 June 2023, the requirement in respect of Common equity tier 1 is 9.76 per cent, excluding Pillar 2 guidance ('P2G').

Overview of regulatory capital framework

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

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

Common Equity Tier 1 ('CET1')

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

Additional Tier 1 capital ('AT1')

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

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

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

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

Tier 2 capital ('T2')

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

Tier 2 capital instruments may be either perpetual or dated subordinated instruments on which there is an obligation to pay coupons. Where dated, they must be issued with an original maturity exceeding five years.

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

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

A list of the main features of HSBC Continental Europe's regulatory capital instruments prepared in accordance with the CRR is also published on HSBC's website.

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

			At	
			30 Jun 2023	31 Dec 2022
Ref*		Ref †	**€m**	€m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	a	**6,327**	6,327
	– share premium account	b	**5,264**	5,264
2	Retained earnings	c	**2,176**	3,863
3	Accumulated other comprehensive income (and other reserves)	d	**1,351**	1,416
5	Transitional adjustments due to additional minority interests	l	**82**	89
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[1]	e	**—**	(965)
6	**Common equity tier 1 capital before regulatory adjustments**		**9,936**	10,730
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments		**(267)**	(275)
8	Intangible assets (net of related deferred tax liability)	f	**(147)**	(140)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	g	**(348)**	(585)
11	Fair value reserves related to gains or losses on cash flow hedges	h	**256**	232
12	Negative amounts resulting from the calculation of expected loss amounts		**(95)**	(45)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	i	**(96)**	(151)
15	Defined-benefit pension fund assets (negative amount)		**(49)**	(69)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)		**(21)**	(633)
22	Amount exceeding the 17.65% threshold		**—**	(54)
23	– *of which:* *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*		**—**	*(37)*
25	*deferred tax assets arising from temporary differences*		**—**	*(17)*
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)		**(171)**	(39)
28	**Total regulatory adjustments to Common Equity Tier 1 ('CET1')**		**(938)**	(1,760)
29	**Common Equity Tier 1 ('CET1') capital**		**8,998**	8,970
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and the related share premium accounts		**998**	998
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	m	**447**	448
36	**Additional tier 1 capital before regulatory adjustments**	j	**1,445**	1,446
	Additional tier 1 capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)		**—**	(96)
43	**Total regulatory adjustments to Additional Tier 1 ('AT1') capital**		**—**	(96)
44	**Additional Tier 1 (AT1) capital**		**1,445**	1,350
45	**Tier 1 capital (T1 = CET1 + AT1)**		**10,443**	10,320
	Tier 2 ('T2') capital: instruments			
46	Capital instruments and the related share premium accounts		**1,941**	1,576
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		**62**	447
51	**Tier 2 capital before regulatory adjustments**	k	**2,003**	2,023

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

Ref*		Ref †	At 30 Jun 2023 €m	31 Dec 2022 €m
	Tier 2 capital: regulatory adjustments			
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		**(494)**	(573)
EU-56b	Other regulatory adjustments to T2 capital		**34**	36
57	**Total regulatory adjustments to tier 2 capital**		**(460)**	(537)
58	**Tier 2 capital**		**1,543**	1,486
59	**Total capital (TC = T1 + T2)**		**11,986**	11,806
60	**Total risk-weighted assets**		**58,634**	58,561
	Capital ratios and buffers			
61	Common equity tier 1 (%)		**15.3**	15.3
62	Tier 1 (%)		**17.8**	17.6
63	Total capital (%)		**20.4**	20.2
64	Institution CET1 overall capital requirement (%)		**14.7**	14.1
65	– capital conservation buffer requirement (%)		**2.5**	2.5
66	– countercyclical buffer requirement (%)		**0.60**	0.11
EU-67a	– Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement		**0.3**	0.3
68	Common equity tier 1 available to meet buffers (%)		**10.8**	10.8
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**172**	146
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)		**914**	970
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability)	g	**195**	436

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

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

1 *This row includes losses that have been recognised and deducted as they arose and were therefore not subject to an independent review.*

HSBC Continental Europe's common equity Tier 1 capital has remained broadly unchanged during the first half of 2023. HSBC Continental Europe's reported profit for the period of €1,944m has not been verified for inclusion in CET1. The reported profit includes the reversal of the losses and impairments recognised in relation to the planned sale of retail banking operations in France for €1,933m.

Issuances and redemptions of own funds instruments are described in Note 1 'Significant events during the year' of HSBC Continental Europe's *Interim Financial Report 2023*.

A detailed breakdown of HSBC Continental Europe's CET1 capital, AT1 capital and Tier 2 capital is provided in its Regulatory Capital Instruments 31 December 2022, which is available on HSBC website https://www.hsbc.com/investors/fixed-income-investors/regulatory-capital-securities.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims 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, after the exclusion of certain exposures and the netting of exposures on certain market instruments.

The leverage ratio has been implemented in the EU for reporting and disclosure purposes, and a binding minimum requirement of 3.0% has been in force since June 2021.

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

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

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

HSBC Continental Europe's approach to risk appetite is described on page 88 of HSBC Continental Europe's *Universal Registration Document 2022.*

In the following three tables, comparatives for 31 December 2022 have been restated for the impact of IFRS17 implementation on 1 January 2023.

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

		At	
		30 Jun 2023	31 Dec 2022
		€m	€m
1	Total assets as per published financial statements	**287,404**	279,081
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(22,178)**	(21,644)
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**(6,551)**	(1,039)
8	Adjustments for derivative financial instruments	**(31,455)**	(34,728)
9	Adjustment for securities financing transactions ('SFTs')	**1,137**	4,659
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**49,735**	38,457
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure)	**(2,401)**	(2,061)
12	Other adjustments	**(32,864)**	(24,576)
13	**Leverage ratio total exposure measure**	**242,826**	238,144

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

		At	
		30 Jun 2023	31 Dec 2022
		€m	€m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**176,325**	178,045
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(13,649)**	(17,073)
6	(Asset amounts deducted in determining Tier 1 capital)	**(884)**	(1,714)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**161,793**	159,258
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	**8,210**	10,686
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**16,583**	18,307
10	(Exempted CCP leg of client-cleared trade exposures) ('SA-CCR')	**(3,744)**	(4,347)
11	Adjusted effective notional amount of written credit derivatives	**3,299**	4,249
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(3,077)**	(3,907)
13	**Total derivatives exposures**	**21,272**	24,987
Securities financing transaction ('SFT') exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**49,345**	37,809
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(23,019)**	(19,443)
16	Counterparty credit risk exposure for SFT assets	**1,115**	1,667
18	**Total securities financing transaction exposures**	**27,442**	20,033
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	**88,371**	86,770
20	(Adjustments for conversion to credit equivalent amounts)	**(52,500)**	(49,428)
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)		
22	**Off-balance sheet exposures**	**35,871**	37,342
Excluded exposures			
EU-22b	(Exposures exempted (on- and off-balance sheet))	**(2,401)**	(2,061)
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	**(1,149)**	(1,415)
EU-22k	**(Total exempted exposures)**	**(3,551)**	(3,476)
Capital and total exposure measure			
23	Tier 1 capital	**10,444**	10,326
24	Leverage ratio total exposure measure	**242,826**	238,144
Leverage ratio			
25	Leverage ratio (%)	**4.3**	4.3
EU-25	Leverage ratio (without adjustment for excluded exposures of public development banks – Public sector investments) (%)	**4.3**	4.3
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	**4.3**	4.3
26	Regulatory minimum leverage ratio requirement (%)	**3.0**	3.0
EU-27a	Overall leverage ratio requirement (%)	**3.0**	3.0

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

		At	
		30 Jun 2023	31 Dec 2022
		€m	€m
Choice of transitional arrangements and relevant exposures			
EU-27	Choice of transitional arrangements for the definition of the capital measure	**Fully phased**	Fully phased
Disclosure of mean values			
28	Mean of daily values of gross SFT assets, (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**27,342**	20,818
29	Quarter-end value of gross SFT assets, (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**26,326**	18,367
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**243,842**	240,595
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**243,842**	240,595
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) (%)	**4.3**	4.3
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) (%)	**4.3**	4.3

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

		At	
		30 Jun 2023	31 Dec 2022
		€m	€m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**159,126**	157,496
EU-2	Trading book exposures	**13,498**	7,653
EU-3	Banking book exposures, of which:	**145,628**	149,844
EU-5	Exposures treated as sovereigns	**74,201**	75,870
EU-7	Institutions	**2,446**	2,976
EU-8	Secured by mortgages of immovable properties	**22,304**	23,117
EU-9	Retail exposures	**3,260**	3,463
EU-10	Corporate	**32,743**	32,130
EU-11	Exposures in default	**1,858**	2,418
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**8,815**	9,869

Credit risk

Overview

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

The tables below set out details of HSBC Continental Europe's credit risk exposures by exposure class and approach. Further explanation of HSBC Continental Europe's approach to managing credit risk (including detail of past due and impaired exposure, and its approach to credit risk impairment) can be found on pages 114 to 125 of its *Universal Registration Document 2022*.

Non-performing and forborne exposures

Tables 11 to 15 are presented in accordance with the EBA's 'Final guidelines on disclosure of non-performing and forborne exposures'.

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The *Universal Registration Document 2022* does not define non-performing exposures, however, the definition of credit impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. In the *Universal Registration Document 2022*, forborne exposures are reported as 'renegotiated loans'. This term is aligned to the EBA definition of forborne exposure except in its treatment of 'cures'.

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

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

In the *Universal Registration Document 2022*, renegotiated loans retain this classification until maturity or de-recognition.

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

Table 11: Credit quality of forborne exposures ('CQ1')

	Gross carrying amount/ nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		*of which: forborne non-performing exposure*
	Performing	Total	*of which: defaulted*	*of which: impaired*			Total	
	€m	€m	*€m*	*€m*	€m	€m	€m	*€m*
At 30 Jun 2023								
Loans and advances	**1,911**	**824**	***824***	***824***	**(20)**	**(207)**	**270**	***128***
Other financial corporations	**28**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Non-financial corporations	**1,796**	**765**	***765***	***765***	**(17)**	**(202)**	**133**	***75***
Households	**87**	**59**	***59***	***59***	**(3)**	**(5)**	**137**	***53***
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loan commitments given	**1**	**28**	***28***	***28***	**—**	**—**	**—**	**—**
Total	**1,912**	**852**	***852***	***852***	**(20)**	**(207)**	**270**	***128***
At 31 Dec 2022								
Loans and advances	1,961	428	*428*	*428*	(29)	(109)	165	*81*
Other financial corporations	13	5	*5*	*5*	(1)	—	1	*1*
Non-financial corporations	1,917	396	*396*	*396*	(26)	(105)	112	*57*
Households	31	27	*27*	*27*	(2)	(4)	52	*23*
Debt securities	—	—	—	—	—	—	—	—
Loan commitments given	1	78	*78*	*78*	—	—	—	—
Total	1,962	506	*506*	*506*	(29)	(109)	165	*81*

Table 12:Quality of non-performing exposures by geography ('CQ4')

		Gross carrying/nominal amount				
30 Jun 2023			*of which: defaulted*	Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
010	**On-balance-sheet exposures**	**113,820**	***1,980***	**(841)**		**—**
020	France	**55,047**	***1,101***	**(532)**		**—**
030	Germany	**15,500**	***372***	**(139)**		**—**
040	United Kingdom (the)	**5,923**	***27***	**(12)**		**—**
050	Spain	**5,758**	***25***	**(14)**		**—**
060	Netherlands (the)	**4,640**	***14***	**(10)**		**—**
070	Other countries	**26,953**	***441***	**(134)**		
080	**Off-balance-sheet exposures**	**135,753**	***370***		**44**	
090	France	**38,106**	***77***		**17**	
100	Germany	**31,364**	***64***		**10**	
110	Italy	**11,224**	***—***		**2**	
120	Spain	**10,184**	***35***		**11**	
130	Netherlands (the)	**9,234**	***—***		**1**	
140	Other countries	**35,640**	***194***		**5**	
150	**Total**	**249,573**	***2,350***	**(841)**	**44**	**—**
31 Dec 2022						
010	On-balance-sheet exposures	74,102	*1,712*	(831)		—
020	France	25,704	*910*	(521)		—
030	Germany	13,236	*338*	(139)		—
040	Netherlands (the)	4,236	*—*	(6)		—
050	Malta	3,957	*113*	(51)		—
060	Czech Republic	2,867	*—*	(1)		—
070	Other countries	24,103	*351*	(112)		—
080	Off-balance-sheet exposures	121,813	*287*		63	
090	France	36,721	*64*		27	
100	Germany	30,028	*122*		13	
110	Italy	9,044	*—*		2	
120	Netherlands (the)	8,143	*—*		1	
130	Spain	6,348	*35*		14	
140	Other countries	31,529	*65*		6	
150	Total	195,915	*1,999*	(831)	63	—

Table 13:Credit quality of loans and advances to non-financial corporations by industry ('CQ5')

		Gross carrying amount			Accumulated negative changes in fair value due to credit risk on non-performing exposures
As at 30 Jun 2023			***of which: defaulted***	**Accumulated impairment**	
010	Agriculture, forestry and fishing	**111**	***30***	**(8)**	**—**
020	Mining and quarrying	**394**	***179***	**—**	**—**
030	Manufacturing	**7,612**	***240***	**(78)**	**—**
040	Electricity, gas, steam and air conditioning supply	**1,022**	***5***	**(4)**	**—**
050	Water supply	**89**	***—***	**—**	**—**
060	Construction	**456**	***18***	**(14)**	**—**
070	Wholesale and retail trade	**4,190**	***179***	**(120)**	**—**
080	Transport and storage	**2,201**	***20***	**(18)**	**—**
090	Accommodation and food service activities	**496**	***50***	**(14)**	**—**
100	Information and communication	**1,209**	***10***	**(11)**	**—**
110	Financial and insurance actvities	**52**	***6***	**(2)**	**—**
120	Real estate activities	**4,149**	***69***	**(30)**	**—**
130	Professional, scientific and technical activities	**2,790**	***289***	**(123)**	**—**
140	Administrative and support service activities	**8,792**	***496***	**(258)**	**—**
150	Public administration and defense, compulsory social security	**3**	***—***	**—**	**—**
160	Education	**21**	***3***	**(1)**	**—**
170	Human health services and social work activities	**123**	***5***	**(3)**	**—**
180	Arts, entertainment and recreation	**217**	***7***	**(5)**	**—**
190	Other services	**1,253**	***77***	**(25)**	**—**
200	**Total**	**35,180**	***1,684***	**(712)**	**—**
As at 31 Dec 2022					
010	Agriculture, forestry and fishing	107	*27*	(12)	—
020	Mining and quarrying	327	*183*	—	—
030	Manufacturing	7,400	*237*	(81)	—
040	Electricity, gas, steam and air conditioning supply	1,040	*5*	(5)	—
050	Water supply	94	*—*	—	—
060	Construction	434	*19*	(15)	—
070	Wholesale and retail trade	4,206	*169*	(134)	—
080	Transport and storage	2,118	*18*	(20)	—
090	Accommodation and food service activities	509	*50*	(18)	—
100	Information and communication	1,127	*9*	(7)	—
110	Financial and insurance actvities	—	*—*	—	—
120	Real estate activities	4,362	*70*	(36)	—
130	Professional, scientific and technical activities	2,662	*237*	(120)	—
140	Administrative and support service activities	9,189	*372*	(243)	—
150	Public administration and defense, compulsory social security	37	*—*	—	—
160	Education	23	*3*	(1)	—
170	Human health services and social work activities	187	*100*	(56)	—
180	Arts, entertainment and recreation	168	*6*	(4)	—
190	Other services	934	*85*	(22)	—
200	Total	34,922	*1,590*	(775)	—

Table 14: Collateral obtained by taking possession and execution processes ('CQ7')

	At 30 Jun 2023		At 31 Dec 2022	
	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	**13,283**	**(510)**	13,111	(103)
– Residential immovable property	**1,302**	**(430)**	1,314	(42)
– Commercial Immovable property	**2,028**	**(80)**	2,036	(39)
– Other	**9,953**	**—**	9,761	(22)
Total	**13,283**	**(510)**	13,111	(103)

Table 15: Performing and non-performing exposures and related provisions ('CR1')

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collaterals and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Total	*of which: stage 1*	*of which: stage 2*	Total	*of which: stage 2*	*of which: stage 3*	Total	*of which: stage 1*	*of which: stage 2*	Total	*of which: stage 2*	*of which: stage 3*	Accumulated partial write-off	On performing exposures	On non-performing exposures
	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	€m	€m
At 30 Jun 2023															
Loans and advances	164,389	*157,051*	*7,338*	1,980	—	*1,980*	(133)	*(45)*	*(88)*	(708)	—	*(708)*	(24)	67,434	510
Central banks	64,128	*64,113*	*15*	—	—	—	—	—	—	—	—	—	—	2,763	—
General governments	3,290	*3,245*	*45*	—	—	—	—	—	—	—	—	—	—	224	—
Credit institutions	27,406	*27,397*	*9*	—	—	—	(1)	*(1)*	—	—	—	—	—	16,962	—
Other financial corporations	13,423	*13,146*	*277*	10	—	*10*	(3)	*(1)*	*(2)*	(1)	—	*(1)*	—	7,726	—
Non-financial corporations	33,496	*28,645*	*4,851*	1,684	—	*1,684*	(96)	*(30)*	*(66)*	(616)	—	*(616)*	(24)	18,187	331
– of which: SMEs	*1,526*	1,318	208	*183*	—	183	*(12)*	(5)	(7)	*(92)*	—	(92)	*(24)*	*1,048*	*56*
Households	22,645	*20,505*	*2,140*	286	—	*286*	(32)	*(12)*	*(20)*	(90)	—	*(90)*	—	21,572	179
Debt securities	10,926	*10,863*	*57*	—	—	—	1	*1*	—	—	—	—	—	1,481	—
Central banks	7	*7*	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	7,035	*7,035*	—	—	—	—	—	—	—	—	—	—	—	884	—
Credit institutions	3,267	*3,224*	*43*	—	—	—	—	—	—	—	—	—	—	597	—
Other financial corporations	518	*512*	—	—	—	—	1	*1*	—	—	—	—	—	—	—
Non-financial corporations	99	*85*	*14*	—	—	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	135,382	*112,750*	*3,351*	370	—	*205*	(22)	*(7)*	*(11)*	(22)	—	*(15)*	—	541	2
Central banks	155	*155*	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	1,539	*1,525*	*1*	—	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	50,914	*48,875*	*61*	—	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	13,223	*12,014*	*198*	28	—	*28*	(1)	—	—	—	—	—	—	112	—
Non-financial corporations	68,207	*49,160*	*3,059*	340	—	*175*	(21)	*(7)*	*(11)*	(22)	—	*(15)*	—	428	2
Households	1,344	*1,021*	*32*	2	—	*2*	—	—	—	—	—	—	—	1	—
Total	310,697	*280,664*	*10,746*	2,350	—	*2,185*	(154)	*(51)*	*(99)*	(730)	—	*(723)*	(24)	69,456	512

Table 15: Performing and non-performing exposures and related provisions ('CR1') (continued)

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collaterals and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures– accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Total	*of which: stage 1*	*of which: stage 2*	Total	*of which: stage 2*	*of which: stage 3*	Total	*of which: stage 1*	*of which: stage 2*	Total	*of which: stage 2*	*of which: stage 3*	Accumu-lated partial write-off	On per-forming expo-sures	On non-per-forming expo-sures
	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	*€m*	*€m*	€m	€m	€m
At 31 Dec 2022															
Loans and advances	126,408	*119,187*	*7,221*	1,713	—	*1,713*	(156)	*(34)*	*(122)*	(674)	—	*(674)*	(24)	36,455	370
Central banks	65,245	*65,230*	*15*	—	—	—	—	—	—	—	—	—	—	3,100	—
General governments	1,027	*979*	*48*	—	—	—	—	—	—	—	—	—	—	234	—
Credit institutions	17,057	*16,791*	*266*	—	—	—	—	—	—	—	—	—	—	8,458	—
Other financial corporations	7,243	*7,012*	*231*	19	—	*19*	(4)	*(1)*	*(3)*	(3)	—	*(3)*	—	3,651	1
Non-financial corporations[1]	33,332	*26,821*	*6,511*	1,590	—	*1,590*	(136)	*(26)*	*(110)*	(639)	—	*(639)*	(24)	18,638	306
– *of which: SMEs*	*1,370*	1,134	236	*185*	—	185	*(12)*	(4)	(8)	*(94)*	—	(94)	*(24)*	*938*	*62*
Households	2,504	*2,354*	*150*	104	—	*104*	(16)	*(7)*	*(9)*	(32)	—	*(32)*	—	2,374	63
Debt securities	10,394	*10,198*	*186*	—	—	—	(1)	—	*(1)*	—	—	—	—	811	—
Central banks	7	*7*	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	5,950	*5,950*	—	—	—	—	—	—	—	—	—	—	—	811	—
Credit institutions	3,674	*3,537*	*137*	—	—	—	(1)	—	*(1)*	—	—	—	—	—	—
Other financial corporations	652	*624*	*22*	—	—	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	111	*80*	*27*	—	—	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	121,526	*102,548*	*6,707*	287	—	*194*	(33)	*(5)*	*(19)*	(30)	—	*(24)*	—	724	1
Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	1,592	*1,389*	*203*	—	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	39,149	*37,253*	*70*	—	—	—	(1)	—	*(1)*	—	—	—	—	—	—
Other financial corporations	12,517	*11,306*	*690*	1	—	*1*	(1)	—	—	—	—	—	—	180	—
Non-financial corporations	66,835	*51,317*	*5,634*	280	—	*189*	(31)	*(5)*	*(18)*	(30)	—	*(24)*	—	537	1
Households	1,433	*1,283*	*110*	6	—	*4*	—	—	—	—	—	—	—	7	—
Total	258,328	*231,933*	*14,114*	2,000	—	*1,907*	(190)	*(39)*	*(142)*	(704)	—	*(698)*	(24)	37,990	371

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

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

Table 16: Changes in the stock of non-performing loans and advances ('CR2')

	30 Jun 2023	31 Dec 2022
	Gross carrying amount	Gross carrying amount
	€m	€m
Initial stock of non-performing loans and advances	**1,713**	1,294
Inflows to non-performing portfolios*	**624**	1,606
Outflows from non-performing portfolios	**357**	1,187
Outflows due to write-offs	**116**	93
Outflow due to other situations	**241**	1,094
Final stock of non-performing loans and advances	**1,980**	1,713

* *Inflows to non-performing portfolio includes impact from assets considered as Held for sale in Q422. EUR 224mn.*

Table 17: Maturity of exposures ('CR1-A')

		Net exposure value				
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	Total
1	**Loans and advances**	**66,255**	**12,966**	**19,785**	**27,992**	**126,999**
2	**Debt securities**	**—**	**1,697**	**6,315**	**2,842**	**10,853**
3	**Total at 30 June 2023**	**66,255**	**14,663**	**26,100**	**30,834**	**137,852**
1	Loans and advances	67,355	13,728	20,536	28,517	130,136
2	Debt securities	—	3,296	5,355	1,735	10,386
3	Total at 31 Dec 2022	67,355	17,024	25,891	30,252	140,522

Table 18: Specialised lending and equity exposures under the simple risk-weighted approach ('CR10')

		Specialised lending: Income-Producing Real Estate (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	**2**	**1**	**50**	**3**	**9**	**—**
	Equal to or more than 2.5 years	**112**	**16**	**70**	**128**	**82**	**1**
Category 2	Less than 2.5 years	**129**	**29**	**70**	**150**	**105**	**1**
	Equal to or more than 2.5 years	**19**	**25**	**90**	**38**	**35**	**—**
Category 3	Less than 2.5 years	**76**	**—**	**115**	**76**	**87**	**2**
	Equal to or more than 2.5 years	**—**	**—**	**115**	**—**	**—**	**—**
Total at 30 Jun 2023	Less than 2.5 years	**207**	**30**		**229**	**200**	**3**
	Equal to or more than 2.5 years	**131**	**41**		**166**	**117**	**1**

		Specialised lending: Project Finance (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	**—**	**—**	**50**	**—**	**—**	**—**
	Equal to or more than 2.5 years	**2**	**—**	**70**	**2**	**1**	**—**
Category 2	Less than 2.5 years	**—**	**1**	**70**	**1**	**1**	**—**
	Equal to or more than 2.5 years	**3**	**8**	**90**	**5**	**28**	**—**
Total at 30 Jun 2023	Less than 2.5 years	**1**	**1**		**1**	**1**	**—**
	Equal to or more than 2.5 years	**5**	**8**		**7**	**29**	**—**

	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
Other equity exposures	**257**	**2**	**370**	**259**	**959**	**6**
Total at 30 Jun 2023	**257**	**2**		**259**	**959**	**6**

Table 18: Specialised lending and equity exposures under the simple risk-weighted approach ('CR10') (continued)

		Specialised lending: Income-Producing Real Estate (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	2	—	50	2	1	—
	Equal to or more than 2.5 years	111	17	70	128	90	1
Category 2	Less than 2.5 years	58	27	70	73	50	—
	Equal to or more than 2.5 years	94	43	90	132	119	1
Category 3	Less than 2.5 years	75	—	115	75	87	2
	Equal to or more than 2.5 years	—	—	115	—	—	—
Total at 31 Dec 2022	Less than 2.5 years	135	27		150	138	2
	Equal to or more than 2.5 years	206	60		260	209	2

		Specialised lending: Project Finance (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	4	—	50	—	—	—
	Equal to or more than 2.5 years	26	—	70	—	—	—
Category 2	Less than 2.5 years	4	1	70	—	—	—
	Equal to or more than 2.5 years	53	19	90	4	3	—
Total at 31 Dec 2022	Less than 2.5 years	8	1		—	—	—
	Equal to or more than 2.5 years	79	19		4	3	—

	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
Other equity exposures	239	2	370	241	884	6
Total at 31 Dec 2022	239	2		241	884	6

Table 19: CRM techniques overview: Disclosure of the use of credit risk mitigation techniques ('CR3')

	Unsecured carrying amount €m	**Secured carrying amount €m**	***of which: secured by collateral €m***	***of which: secured by financial guarantees €m***	***of which: secured by credit derivatives €m***
Loans and advances	**91,185**	**35,814**	***27,839***	***7,975***	***—***
Debt securities	**8,584**	**2,269**	***322***	***1,946***	***—***
Off-balance sheet exposures	**73,557**	**8,029**	***2,654***	***5,220***	***155***
Total at 30 Jun 2023	**173,326**	**46,112**	***30,815***	***15,141***	***155***
Of which NPE	**568**	**930**	***268***	***662***	***—***
Of which defaulted	**568**	**930**	***268***	***662***	***—***
Loans and advances	93,097	37,036	*28,539*	*8,497*	—
Debt securities	8,244	2,142	*320*	*1,822*	—
Off-balance sheet exposures	63,476	15,034	*2,484*	*8,493*	*4,057*
Total at 31 Dec 2022	164,818	54,211	*31,343*	*18,811*	*4,057*
Of which NPE	787	1,547	*316*	*1,231*	—
Of which defaulted	787	1,547	*316*	*1,231*	—

Table 20: Standardised approach – Credit risk exposure and CRM effects ('CR4')

	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWA density	
	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet amount	RWAs	RWA density
Exposure classes	**€m**	**€m**	**€m**	**€m**	**€m**	**%**
Central governments or central banks	**64,704**	**640**	**66,053**	**430**	**488**	**1**
Regional government or local authorities	**1,271**	**100**	**1,402**	**27**	**2**	**—**
Public sector entities	**5,634**	**1,099**	**5,520**	**303**	**—**	**—**
Multilateral development banks	**123**	**—**	**123**	**—**	**—**	**—**
International organisations	**1112**	**—**	**1,112**	**—**	**—**	**—**
Institutions	**482**	**3,904**	**510**	**3,151**	**864**	**24**
Corporates	**5,253**	**7,310**	**4,313**	**1,029**	**4,357**	**82**
Retail	**458**	**1,240**	**432**	**163**	**417**	**70**
Secured by mortgages on immovable property	**2,922**	**106**	**2,922**	**17**	**1,151**	**39**
Exposures in default	**210**	**25**	**188**	**12**	**243**	**122**
Exposures associated with particularly high risk	**26**	**10**	**25**	**4**	**44**	**150**
Equity[1]	**—**	**—**	**—**	**—**	**—**	**—**
Other items	**1,877**	**—**	**1,877**	**—**	**1,376**	**73**
Total at 30 Jun 2023	**84,073**	**14,434**	**84,478**	**5,135**	**8,943**	**10**
Central governments or central banks	67,320	443	68,729	427	1,093	2
Regional government or local authorities	1,595	100	1,733	24	2	—
Public sector entities	4,770	1,103	4,669	299	10	—
Multilateral development banks	167	—	167	—	—	—
International organisations	595	—	595	—	—	—
Institutions	844	2,607	860	2,005	725	25
Corporates	5,551	6,384	4,524	1,379	4,668	79
Retail	499	730	469	45	369	72
Secured by mortgages on immovable property	2,977	16	2,977	4	1,160	39
Exposures in default	217	21	194	3	232	118
Exposures associated with particularly high risk	30	20	29	7	54	150
Equity[1]	970	—	970	—	2,424	250
Other items	1,986	—	1,986	—	1,320	66
Total at 31 Dec 2022	87,519	11,424	87,901	4,192	12,058	13

1 *At 30 June 2023 RWAs for significant investments in the equity of financial sector entities are reported under the IRB approach; comparatives for 31 December 2022 have not been restated.*

Table 21: Standardised approach – Exposures by asset classes and risk weights ('CR5')

Exposure classes	Risk weight 0%	2%	4%	10%	20%	35%	50%	70%	75%
Central governments or central banks	**66,288**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Regional government or local authorities	**1,422**	**—**	**—**	**—**	**8**	**—**	**—**	**—**	**—**
Public sector entities	**5,823**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Multilateral development banks	**123**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
International organisations	**1,112**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Institutions	**—**	**86**	**—**	**—**	**3,218**	**—**	**279**	**—**	**—**
Corporates	**—**	**—**	**—**	**—**	**668**	**—**	**832**	**—**	**—**
Retail exposures	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**595**
Exposures secured by mortgages on immovable property	**—**	**—**	**—**	**—**	**—**	**2,058**	**881**	**—**	**—**
Exposures in default	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Exposures associated with particularly high risk	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Equity exposures[1]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other items	**160**	**—**	**—**	**—**	**427**	**—**	**—**	**—**	**—**
Total at 30 Jun 2023	**74,927**	**86**	**—**	**—**	**4,321**	**2,058**	**1,992**	**—**	**595**
Central governments or central banks	68,716	—	—	—	1	—	—	—	—
Regional government or local authorities	1,749	—	—	—	8	—	—	—	—
Public sector entities	4,948	—	—	—	—	—	20	—	—
Multilateral development banks	167	—	—	—	—	—	—	—	—
International organisations	595	—	—	—	—	—	—	—	—
Institutions	—	—	—	—	2,483	—	311	—	—
Corporates	—	—	—	—	704	—	1,210	—	—
Retail exposures	—	—	—	—	—	—	—	—	514
Exposures secured by mortgages on immovable property	—	—	—	—	—	2,074	907	—	—
Exposures in default	—	—	—	—	—	—	—	—	—
Exposures associated with particularly high risk	—	—	—	—	—	—	—	—	—
Equity exposures[1]	—	—	—	—	—	—	—	—	—
Other items	94	—	—	—	715	—	—	—	—
Total at 31 Dec 2022	76,269	—	—	—	3,911	2,074	2,448	—	514

1 *At 30 June 2023 RWAs for significant investments in the equity of financial sector entities are reported under the IRB approach; comparatives for 31 December 2022 have not been restated.*

Table 21: Standardised approach – Exposures by asset classes and risk weights ('CR5') (continued)

Exposure classes	Risk weight 100%	150%	250%	370%	1,250%	Others	Total	*of which unrated*
Central governments or central banks	**—**	**—**	**195**	**—**	**—**	**—**	**66,483**	**195**
Regional government or local authorities	**—**	**—**	**—**	**—**	**—**	**—**	**1,430**	**20**
Public sector entities	**—**	**—**	**—**	**—**	**—**	**—**	**5,823**	**482**
Multilateral development banks	**—**	**—**	**—**	**—**	**—**	**—**	**123**	**123**
International organisations	**—**	**—**	**—**	**—**	**—**	**—**	**1,112**	**823**
Institutions	**77**	**1**	**—**	**—**	**—**	**—**	**3,661**	**303**
Corporates	**3,819**	**22**	**—**	**—**	**—**	**—**	**5,341**	**3,745**
Retail exposures	**—**	**—**	**—**	**—**	**—**	**—**	**595**	**595**
Exposures secured by mortgages on immovable property	**—**	**—**	**—**	**—**	**—**	**—**	**2,939**	**2,939**
Exposures in default	**112**	**88**	**—**	**—**	**—**	**—**	**200**	**200**
Exposures associated with particularly high risk	**—**	**30**	**—**	**—**	**—**	**—**	**30**	**30**
Equity exposures	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other items	**1,290**	**—**	**—**	**—**	**—**	**—**	**1,877**	**1,877**
Total at 30 Jun 2023	**5,298**	**140**	**195**	**—**	**—**	**—**	**89,612**	**11,331**
Central governments or central banks	3	—	436	—	—	—	69,157	439
Regional government or local authorities	—	—	—	—	—	—	1,757	—
Public sector entities	—	—	—	—	—	—	4,969	3,099
Multilateral development banks	—	—	—	—	—	—	167	132
International organisations	—	—	—	—	—	—	595	72
Institutions	64	6	—	—	—	—	2,865	116
Corporates	3,987	2	—	—	—	—	5,902	4,010
Retail exposures	—	—	—	—	—	—	514	514
Exposures secured by mortgages on immovable property	—	—	—	—	—	—	2,981	2,981
Exposures in default	125	72	—	—	—	—	196	196
Exposures associated with particularly high risk	—	36	—	—	—	—	36	36
Equity exposures	—	—	970	—	—	—	970	970
Other items	1,185	—	—	—	—	—	1,994	239
Total at 31 Dec 2022	5,364	115	1,406	—	—	—	92,101	12,804

Table 22: IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques ('CR7')

	At 30 Jun 2023		At 31 Dec 2022	
	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	**5**	**5**	5	5
Institutions	**22**	**22**	130	130
Corporates	**7,383**	**7,383**	8,076	8,076
– *of which:* *SMEs*	***2***	***2***	—	—
Exposures under AIRB				
Central governments and central banks	**275**	**275**	174	174
Institutions	**488**	**488**	583	583
Corporates	**17,759**	**17,674**	16,367	16,315
– *of which:* *SMEs*	***43***	***43***	*27*	*27*
specialised lending	***584***	***584***	*714*	*714*
Retail	**3,955**	**3,955**	4,078	4,078
– *of which:* *retail – SMEs – Secured by immovable property collateral*	***205***	***205***	*184*	*184*
retail – non-SMEs – Secured by immovable property collateral	***2,201***	***2,201***	*2,489*	*2,489*
retail – Qualifying revolving	***2***	***2***	*5*	*5*
retail – SMEs – Other	***379***	***379***	*338*	*338*
retail – Non-SMEs – Other	***1,168***	***1,168***	*1,064*	*1,064*
Total (including FIRB exposures and AIRB exposures)	**29,887**	**29,802**	29,413	29,361

Table 23: IRB approach – Disclosure of the extent of the use of CRM techniques ('CR7-A')

		Credit risk Mitigation techniques				
		Funded credit Protection ('FCP')				
	Total exposures	**Part of exposures covered by Financial Collaterals**	**Part of exposures covered by Other eligible collaterals**	**Part of exposures covered by Immo-vable property Collaterals**	**Part of exposures covered by Receivables**	**Part of exposures covered by Other physical collateral**
	€m	**%**	**%**	**%**	**%**	**%**
A-IRB						
Central governments and central banks	**2,511**	—	—	—	—	—
Institutions	**2,660**	—	—	—	—	—
Corporates	**36,312**	**2**	**7**	**6**	**1**	—
– *of which:* *Corporates – SMEs*	***76***	—	***42***	***37***	**6**	—
Corporates – Specialised lending	***873***	—	—	—	—	—
Corporates – Other	***35,363***	***2***	***7***	***6***	***1***	—
Retail	**22,236**	**7**	**24**	**24**	—	—
– *of which:* *Retail – Immovable property SMEs*	***307***	***4***	***93***	***92***	**1**	—
Retail – Immovable property non-SMEs	***19,092***	***1***	***27***	***27***	—	—
Retail – Qualifying revolving	***303***	—	—	—	—	—
Retail – Other SMEs	***1,011***	***13***	***4***	—	***3***	—
Retail – Other non-SMEs	***1,523***	***79***	—	—	—	—
Total A-IRB at 30 Jun 2023	**63,719**	**4**	**12**	**12**	**1**	—
F-IRB						
Central governments and central banks	—	—	—	—	—	—
Institutions	**38**	—	—	—	—	—
Corporates	**13,887**	**8**	—	—	—	—
– *of which:* *Corporates – SMEs*	***2***	—	—	—	—	—
Corporates – Other	***13,885***	***8***	—	—	—	—
Total F-IRB at 30 Jun 2023	**13,925**	**8**	—	—	—	—

Table 23: IRB approach – Disclosure of the extent of the use of CRM techniques ('CR7-A') (continued)

	Credit risk Mitigation techniques						Credit risk Mitigation methods in the calculation of RWAs	
	Funded credit Protection ('FCP')				Unfunded credit Protection ('UFCP')			
	Part of exposures covered by Other funded credit protection	Part of exposures covered by Cash on deposit	Part of exposures covered by Life insur-ance policies	Part of exposures covered by Instruments held by a third party	Part of exposures covered by Guarantees	Part of exposures covered by Credit Derivatives	RWAs without substitution effects (reduction effects only)	RWAs with substitution effects (both reduction and sustitution effects)
	%	%	%	%	%	%	€m	€m
A-IRB								
Central governments and central banks	—	—	—	—	—	—	275	275
Institutions	—	—	—	—	—	—	488	488
Corporates	—	—	—	—	1	—	17,675	17,674
– *of which: Corporates – SMEs*	—	—	—	—	—	—	*43*	*43*
Corporates – Specialised lending	—	—	—	—	—	—	*584*	*584*
Corporates – Other	—	—	—	—	*1*	—	*17,048*	*17,047*
Retail	—	—	—	—	64	—	3,955	3,955
– *of which: Retail – Immovable property SMEs*	—	—	—	—	—	—	*205*	*205*
Retail – Immovable property non-SMEs	—	—	—	—	*73*	—	*2,201*	*2,201*
Retail – Qualifying revolving	—	—	—	—	—	—	*2*	*2*
Retail – Other SMEs	—	—	—	—	*30*	—	*379*	*379*
Retail – Other non-SMEs	—	—	—	—	*1*	—	*1,168*	*1,168*
Total A-IRB at 30 Jun 2023	—	—	—	—	23	—	22,393	22,392
F-IRB								
Central governments and central banks	—	—	—	—	—	—	—	5
Institutions	—	—	—	—	—	—	19	22
Corporates	—	—	—	—	—	—	7,391	7,383
– *of which: Corporates – SMEs*	—	—	—	—	—	—	*2*	*2*
Corporates – Other	—	—	—	—	—	—	7,389	7,381
Total F-IRB at 30 Jun 2023	—	—	—	—	—	—	7,410	7,410

Table 24: IRB approach – Credit risk exposures by exposure class and PD range ('CR6')

PD scale	On-balance sheet exposures €m	Off-balance-sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post-CCF and post-CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjustments and provisions €m
AIRB – Central governments and central banks												
0.00 to <0.15	2,382	21	54.6	2,369	—	21	45.0	3.7	272	11	—	—
– 0.00 to <0.10	2,368	—	20.0	2,368	—	17	45.0	3.7	271	11	—	—
– 0.10 to <0.15	14	21	57.0	1	0.1	4	45.0	4.9	1	57	—	—
0.15 to <0.25	—	—	100.0	—	0.2	1	45.0	5.0	—	77	—	—
0.75 to <2.50	3	—	100.0	3	0.9	2	45.0	2.2	3	92	—	—
– 0.75 to <1.75	3	—	—	3	0.9	1	45.0	2.2	3	92	—	—
– 1.75 to <2.5	—	—	100.0	—	2.3	1	45.0	5.0	—	162	—	—
2.50 to <10.00	116	—	—	—	4.2	3	45.0	5.0	—	187	—	—
– 2.5 to <5	70	—	—	—	4.2	2	45.0	5.0	—	187	—	—
– 5 to <10	46	—	—	—	—	1	—	—	—	—	—	—
10.00 to <100.00	—	—	—	—	13.0	1	45.0	1.0	1	214	—	—
– 10 to <20	—	—	—	—	13.0	1	45.0	1.0	1	214	—	—
Subtotal	2,501	21	63.4	2,372	—	28	45.0	3.7	275	12	—	—
AIRB – Institutions												
0.00 to <0.15	1,841	1,240	35.8	2,081	0.1	274	33.3	2.5	337	16	—	—
– 0.00 to <0.10	1,732	885	44.0	1,906	—	170	33.7	2.5	297	16	—	—
– 0.10 to <0.15	109	355	18.7	175	0.1	104	28.7	1.9	40	23	—	—
0.15 to <0.25	229	32	20.5	236	0.2	21	24.1	1.9	72	30	—	—
0.25 to <0.50	4	38	18.5	11	0.4	7	45.0	1.5	8	74	—	—
0.50 to <0.75	2	60	90.1	57	0.6	10	45.0	2.0	50	89	—	—
0.75 to <2.5	2	252	20.1	52	2.2	10	6.4	0.3	22	41	—	—
– 0.75 to <1.75	1	—	75.1	1	1.6	5	45.0	1.7	1	105	—	—
– 1.75 to <2.5	1	252	20.0	51	2.3	5	5.8	0.3	21	40	—	—
2.5 to <10	—	—	45.0	—	3.1	1	45.0	5.0	—	204	—	—
– 2.5 to <5	—	—	45.0	—	3.1	1	45.0	5.0	—	204	—	—
Subtotal	2,078	1,622	34.6	2,437	0.1	323	32.1	2.4	489	20	1	1
AIRB – Corporates – SME												
0.15 to <0.25	1	—	—	1	0.2	4	29.8	4.5	—	35	—	—
0.25 to <0.50	1	—	—	1	0.4	1	26.7	5.0	—	38	—	—
0.50 to <0.75	9	1	—	9	0.6	7	20.4	4.9	3	36	—	—
0.75 to <2.5	63	1	11.0	63	1.4	19	29.7	3.3	38	61	—	—
– 0.75 to <1.75	41	—	—	41	0.9	11	34.5	3.0	24	59	—	—
– 1.75 to <2.5	22	1	17.3	22	2.3	8	21.0	3.8	14	65	—	—
2.5 to <10	1	1	100.0	2	4.7	4	21.5	3.2	2	55	—	—
– 2.5 to <5	—	1	100.0	1	3.3	2	21.5	4.0	1	59	—	—
– 5 to <10	1	—	809.7	1	5.8	2	21.5	2.6	1	52	—	—
10 to <100	1	—	—	1	13.0	1	8.9	3.4	—	29	—	—
– 10 to <20	1	—	—	1	13.0	1	8.9	3.4	—	29	—	—
Subtotal	76	3	28.5	77	1.4	36	28.2	3.5	43	57	—	—

Table 24: IRB approach – Credit risk exposures by exposure class and PD range ('CR6') (continued)

PD scale	On-balance sheet expo-sures €m	Off-balance-sheet expo-sures pre-CCF €m	Exposure weighted average CCF %	Exposure post-CCF and post-CRM €m	Exposure weighted average PD %	Number of obligors	Expo-sure weigh-ted average LGD %	Expo-sure weigh-ted average matur-ity (years)	Risk weighted exposure amount after support-ing factors €m	Density of risk weigh-ted expo-sure amount %	Expect-ed loss amount €m	Value adjust-ments and provis-ions €m
AIRB – Corporates –specialised lending												
0.75 to <2.5	366	44	12.1	372	0.9	1	35.6	3.6	237	64	1	—
– 0.75 to <1.75	366	44	12.1	372	0.9	1	35.6	3.6	237	64	1	—
– 1.75 to <2.5	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	366	44	12.1	372	0.9	1	35.6	3.6	237	64	1	—
AIRB – Corporates – other												
0.00 to <0.15	5,907	29,201	29.0	15,318	0.1	965	31.2	2.2	3,491	23	5	—
– 0.00 to <0.10	4,417	20,729	31.4	11,564	0.1	624	30.5	2.1	2,158	19	3	—
– 0.10 to <0.15	1,490	8,472	23.4	3,754	0.1	341	33.4	2.3	1,333	36	2	—
0.15 to <0.25	2,836	6,746	27.8	4,715	0.2	559	31.0	2.4	1,946	41	4	—
0.25 to <0.50	1,199	2,455	26.6	2,100	0.4	257	30.9	2.4	1,436	68	3	—
0.50 to <0.75	1,592	3,077	29.3	2,571	0.6	1,312	28.8	2.6	1,758	68	6	—
0.75 to <2.5	5,065	4,979	34.8	5,483	1.4	3,078	25.7	2.2	3,879	71	23	—
– 0.75 to <1.75	3,693	2,696	35.5	4,577	1.2	2,386	25.6	2.2	3,144	69	17	—
– 1.75 to <2.5	1,372	2,283	32.1	906	2.2	692	26.2	2.1	735	81	6	—
2.5 to <10	2,558	1,329	19.8	2,716	4.5	1,459	20.3	2.5	2,140	79	28	—
– 2.5 to <5	1,322	1,071	18.9	1,510	3.4	947	24.9	2.4	1,363	90	15	—
– 5 to <10	1,236	258	23.7	1,206	5.9	512	14.5	2.7	777	64	13	—
10 to <100	1,016	298	24.1	1,088	16.7	315	23.8	2.4	1,593	146	62	—
– 10 to <20	825	149	24.9	862	11.6	172	22.6	2.4	1,115	129	30	—
– 30 to <100	191	149	23.4	226	36.0	143	28.5	2.4	478	211	32	—
100.00 (Default)	870	135	31.0	914	100.0	445	23.5	3.0	803	88	318	—
Subtotal	21,043	48,220	28.8	34,905	3.8	8,391	28.8	2.3	17,046	49	449	403
Wholesale AIRB – Total at 30 Jun 2023	26,064	49,910	29.0	40,163	3.4	8,779	30.0	2.4	18,090	45	451	404

Table 24: IRB approach – Credit risk exposures by exposure class and PD range ('CR6') (continued)

PD scale	On-balance sheet exposures €m	Off-balance-sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post-CCF and post-CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjustments and provisions €m
AIRB – Secured by mortgages on immovable property SME												
0.25 to <0.50	11	—	18.0	11	0.5	69	26.3		2	23	—	—
0.50 to <0.75	22	—	—	22	0.6	130	26.0		6	26	—	—
0.75 to <2.5	68	1	36.8	69	1.4	407	25.8		28	40	—	—
– 0.75 to <1.75	53	1	20.1	54	1.2	314	25.9		20	36	—	—
– 1.75 to <2.5	15	—	50.9	15	2.3	93	25.4		8	53	—	—
2.5 to <10	162	—	69.5	162	4.5	986	24.5		135	83	2	—
– 2.5 to <5	124	—	55.0	124	3.8	780	24.3		101	81	1	—
– 5 to <10	38	—	86.8	38	6.7	206	25.1		34	88	1	—
10 to <100	18	—	—	18	19.7	100	24.7		21	119	1	—
– 10 to <20	8	—	—	8	11.9	44	24.3		8	105	—	—
– 20 to <30	10	—	—	10	25.5	56	24.9		13	129	1	—
100.00 (Default)	25	—	—	26	100.0	201	28.4		13	51	6	—
Subtotal	**306**	**1**	**69.3**	**308**	**12.2**	**1,893**	**25.3**		**205**	**67**	**9**	**14**
AIRB – Secured by mortgages on immovable property non-SME												
0.00 to <0.15	2,633	10	56.2	2,646	0.1	16,563	10.7		86	3	—	—
– 0.10 to <0.15	2,633	10	56.2	2,646	0.1	16,563	10.7		86	3	—	—
0.15 to <0.25	5,491	26	54.8	5,522	0.2	31,852	11.4		257	5	1	—
0.25 to <0.50	4,697	32	63.4	4,732	0.4	27,912	12.7		415	9	2	—
0.50 to <0.75	1,928	17	63.1	1,945	0.7	10,753	11.9		254	13	2	—
0.75 to <2.5	3,055	24	70.3	3,081	1.2	18,805	13.1		650	21	5	—
– 0.75 to <1.75	2,759	22	68.4	2,782	1.1	16,713	13.2		563	20	4	—
– 1.75 to <2.5	296	2	91.9	299	2.3	2,092	12.0		87	29	1	—
2.5 to <10	888	4	72.8	893	4.8	5,332	13.2		392	44	6	—
– 2.5 to <5	688	3	72.6	692	4.1	4,099	13.3		288	42	4	—
– 5 to <10	200	1	73.7	201	7.3	1,233	12.5		104	52	2	—
10 to <100	160	1	72.1	161	17.0	1,099	15.2		132	82	4	—
– 10 to <20	129	1	75.0	130	13.8	830	15.0		104	80	3	—
– 20 to <30	27	—	54.9	27	27.4	233	15.4		26	97	1	—
– 30 to <100	4	—	—	4	51.6	36	19.4		2	51	—	—
100.00 (Default)	155	—	661.3	169	100.0	1,247	21.4		15	9	35	—
Subtotal	**19,007**	**114**	**64.2**	**19,149**	**1.7**	**113,563**	**12.1**		**2,201**	**11**	**55**	**40**
AIRB – Qualifying revolving retail exposures												
0.00 to <0.15	84	—	—	—	—	85,800	—		—	—	—	—
– 0.00 to <0.10	12	—	—	—	—	15,469	—		—	—	—	—
– 0.10 to <0.15	72	—	—	—	—	70,331	—		—	—	—	—
0.15 to <0.25	79	—	—	—	—	68,765	—		—	—	—	—
0.25 to <0.50	46	—	—	—	—	39,432	—		—	—	—	—
0.50 to <0.75	21	—	—	—	—	18,019	—		—	—	—	—
0.75 to <2.5	50	—	—	—	—	42,588	—		—	—	—	—
– 0.75 to <1.75	40	—	—	—	—	33,645	—		—	—	—	—
– 1.75 to <2.5	10	—	—	—	—	8,943	—		—	—	—	—
2.5 to <10	16	—	—	—	—	13,440	—		—	—	—	—
– 2.5 to <5	8	—	—	—	—	6,694	—		—	—	—	—
– 5 to <10	8	—	—	—	—	6,746	—		—	—	—	—
10 to <100	6	—	—	—	—	4,112	—		—	—	—	—
– 10 to <20	4	—	—	—	—	2,759	—		—	—	—	—
– 20 to <30	2	—	—	—	—	1,328	—		—	—	—	—
– 30 to <100	—	—	—	—	—	25	—		—	—	—	—
100.00 (Default)	1	—	—	1	100.0	889	19.0		2	236	—	—
Subtotal	**303**	**—**	**—**	**1**	**100.0**	**273,045**	**19.0**		**2**	**236**	**—**	**2**

Table 24: IRB approach – Credit risk exposures by exposure class and PD range ('CR6') (continued)

PD scale	On-balance sheet exposures €m	Off-balance-sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post-CCF and post-CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjustments and provisions €m
AIRB – Other SME												
0.00 to <0.15	1	—	98.9	2	—	42	20.5		—	2	—	—
– 0.00 to <0.10	1	—	98.9	2	—	42	20.5		—	2	—	—
0.25 to <0.50	23	12	78.1	35	0.5	1,752	23.3		5	14	—	—
0.50 to <0.75	60	31	77.4	89	0.6	4,169	22.8		14	16	—	—
0.75 to <2.5	205	100	82.1	306	1.5	14,465	22.3		70	23	1	—
– 0.75 to <1.75	139	75	83.1	216	1.2	10,729	22.9		47	22	1	—
– 1.75 to <2.5	66	25	79.0	90	2.3	3,736	20.8		23	25	—	—
2.5 to <10	345	1,209	8.1	467	4.8	22,913	22.2		154	33	6	—
– 2.5 to <5	202	1,178	6.5	294	3.7	15,442	23.5		106	36	3	—
– 5 to <10	143	31	70.9	173	6.7	7,471	19.9		48	28	3	—
10 to <100	42	5	69.8	47	20.2	1,927	15.9		15	31	1	—
– 10 to <20	15	3	73.9	18	11.8	756	17.5		5	28	—	—
– 20 to <30	27	2	64.5	29	25.5	1,171	14.8		10	32	1	—
100.00 (Default)	112	11	39.5	119	100.0	3,813	25.5		122	102	21	—
Subtotal	788	1,368	16.2	1,065	14.7	49,081	22.4		380	36	29	72
AIRB – Other non-SME												
0.00 to <0.15	89	91	3.4	304	0.1	119,114	48.6		43	14	—	—
– 0.00 to <0.10	—	8	1.1	28	0.1	17,944	60.1		3	10	—	—
– 0.10 to <0.15	89	83	3.6	276	0.1	101,170	47.4		40	14	—	—
0.15 to <0.25	181	104	4.9	493	0.2	192,893	47.3		98	20	—	—
0.25 to <0.50	208	80	1.0	416	0.4	137,588	45.3		124	30	1	—
0.50 to <0.75	130	49	3.8	214	0.7	54,113	40.7		85	40	1	—
0.75 to <2.5	308	106	3.3	579	1.4	204,002	44.6		321	56	4	—
– 0.75 to <1.75	269	77	2.5	491	1.2	169,959	44.1		261	53	3	—
– 1.75 to <2.5	39	29	5.5	88	2.4	34,043	46.9		60	68	1	—
2.5 to <10	138	38	4.9	233	5.0	98,370	44.3		167	72	5	—
– 2.5 to <5	100	21	7.8	147	4.1	42,937	40.9		97	66	2	—
– 5 to <10	38	17	1.4	86	6.6	55,433	50.2		70	81	3	—
10 to <100	50	10	6.8	85	19.4	32,707	48.1		93	109	8	—
– 10 to <20	33	7	9.5	57	14.5	18,691	47.6		56	98	4	—
– 20 to <30	15	3	—	26	27.8	13,744	49.8		35	132	4	—
– 30 to <100	2	—	74.9	2	51.6	272	39.6		2	107	—	—
100.00 (Default)	60	2	585.4	90	100.0	10,521	54.6		236	262	30	—
Subtotal	1,164	480	5.8	2,414	5.4	849,308	45.9		1,167	48	49	47
Retail AIRB – Total at 30 Jun 2023	21,568	19,653	16.5	22,937	3	1,286,890	16.3		3,955	17	142	175
FIRB – Central governments and central banks												
0.00 to <0.15	—	—	75.0	33	—	—	45.0	2.5	5	15	—	—
– 0.00 to <0.10	—	—	75.0	33	—	—	45.0	2.5	5	15	—	—
Subtotal	—	—	75.0	33	—	—	45.0	2.5	5	15	—	—

Table 24: IRB approach – Credit risk exposures by exposure class and PD range ('CR6') (continued)

PD scale	On-balance sheet expo-sures €m	Off-balance-sheet expo-sures pre-CCF €m	Exposure weighted average CCF %	Exposure post-CCF and post-CRM €m	Exposure weighted average PD %	Number of obligors	Expo-sure weigh-ted average LGD %	Expo-sure weigh-ted average matur-ity (years)	Risk weighted exposure amount after support-ing factors €m	Density of risk weigh-ted expo-sure amount %	Expect-ed loss amount €m	Value adjust-ments and provis-ions €m
FIRB – Institutions												
0.00 to <0.15	5	63	44.1	34	0.1	31	45.0	2.5	14	40	—	—
– 0.00 to <0.10	2	6	20.0	4	0.1	13	45.0	2.5	1	31	—	—
– 0.10 to <0.15	3	57	48.1	30	0.1	18	45.0	2.5	13	41	—	—
0.15 to <0.25	—	—	20.0	7	0.2	1	45.0	2.5	3	49	—	—
0.25 to <0.50	—	—	0.3	—	0.4	1	45.0	2.5	—	108	—	—
0.75 to <2.5	—	17	20.0	3	0.9	2	45.0	2.5	4	117	—	—
– 0.75 to <1.75	—	17	20.0	3	0.9	1	45.0	2.5	4	116	—	—
– 1.75 to <2.5	—	—	20.0	—	2.3	1	45.0	2.5	—	149	—	—
2.5 to <10	1	—	—	1	3.7	4	45.0	2.5	1	145	—	—
– 2.5 to <5	1	—	—	1	3.7	4	45.0	2.5	1	145	—	—
Subtotal	6	80	34.6	45	0.3	39	45.0	2.5	22	49	—	—
FIRB – Corporates – SME												
0.75 to <2.5	—	—	—	—	2.3	1	45.0	2.5	—	76	—	—
– 1.75 to <2.5	—	—	—	—	2.3	1	45.0	2.5	—	76	—	—
2.5 to <10	1	2	27.7	2	6.1	4	45.0	2.5	2	139	—	—
– 2.5 to <5	—	—	37.7	—	4.2	2	45.0	2.5	—	136	—	—
– 5 to <10	1	2	26.3	2	6.3	2	45.0	2.5	2	140	—	—
Subtotal	1	2	27.7	2	6.1	5	45.0	2.5	2	139	—	—
FIRB – Corporates – other												
0.00 to <0.15	2,431	7,049	35.3	5,100	0.1	934	44.6	2.5	1,416	28	2	—
– 0.00 to <0.10	1,283	4,041	40.1	3,226	0.1	623	44.1	2.5	698	22	1	—
– 0.10 to <0.15	1,148	3,008	28.8	1,874	0.1	311	45.4	2.5	718	38	1	—
0.15 to <0.25	1,245	2,648	40.7	2,341	0.2	390	40.8	2.5	1,065	45	2	—
0.25 to <0.50	727	1,023	28.1	1,062	0.4	294	41.0	2.5	666	63	2	—
0.50 to <0.75	1,095	1,336	23.8	1,360	0.6	406	26.3	2.5	676	50	2	—
0.75 to <2.5	1,519	2,177	37.4	1,962	1.5	1,029	44.5	2.5	2,191	112	14	—
– 0.75 to <1.75	1,006	1,534	40.1	1,455	1.2	709	44.4	2.5	1,519	104	8	—
– 1.75 to <2.5	513	643	31.3	507	2.3	320	44.6	2.5	672	133	6	—
2.5 to <10	732	583	44.2	681	4.3	344	33.0	2.5	816	120	11	—
– 2.5 to <5	343	464	44.4	546	3.8	230	30.1	2.5	572	105	7	—
– 5 to <10	389	119	40.1	135	6.1	114	44.7	2.5	244	181	4	—
10 to <100	321	274	30.6	250	12.5	68	44.9	2.5	551	220	15	—
– 10 to <20	319	272	30.3	247	12.2	54	44.9	2.5	543	220	14	—
– 30 to <100	2	2	49.9	3	36.0	14	45.0	2.5	8	270	1	—
100.00 (Default)	387	99	57.2	339	100.0	56	44.5	2.5	—	—	146	—
Subtotal	8,457	15,189	35.5	13,095	3.4	3,521	41.1	2.5	7,381	56	194	169
FIRB – Total at 30 Jun 2023	8,463	15,272	35.5	13,173	3	3,565	41.1	2.5	7,408	56	194	169

Counterparty credit risk

Overview

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

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

Further explanation of HSBC Continental Europe's approach to managing counterparty credit risk can be found on page 140 of HSBC Continental Europe's Universal Registration Document 2022.

Table 25: Analysis of CCR exposure by approach ('CCR1')

	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)	—	—		—	—	—	—	—
EU – Simplified SA-CCR (for derivatives)	—	—		—	—	—	—	—
SA-CCR (for derivatives)	**3,432**	**2,975**		**1.4**	**8,970**	**8,970**	**8,970**	**3,147**
IMM (for derivatives and SFTs)			**3,284**	**1.45**	**4,762**	**4,762**	**4,762**	**1,437**
– *of which:* *securities financing transactions netting sets*			—		—	—	—	—
derivatives and long settlement transactions netting sets			*3,284*		*4,762*	*4,762*	*4,762*	*1,437*
from contractual cross-product netting sets					—	—	—	—
Financial collateral simple method (for SFTs)					—	—	—	—
Financial collateral comprehensive method (for SFTs)					**4,733**	**4,743**	**4,743**	**609**
VaR for SFTs					—	—	—	—
Total at 30 Jun 2023					**18,465**	**18,475**	**18,475**	**5,193**

Table 26: Transactions subject to own funds requirements for CVA risk ('CCR2')

		At 30 Jun 2023		At 31 Dec 2022	
		Exposure value	**RWAs**	Exposure value	RWAs
		€m	**€m**	€m	€m
1	Total transactions subject to the Advanced method	**2,233**	**127**	2,690	264
2	(i) VaR component (including the 3× multiplier)		**38**		64
3	(ii) stressed VaR component (including the 3× multiplier)		**89**		200
4	Transactions subject to the Standardised method	**3,199**	**653**	2,463	513
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	**—**	**—**	—	—
5	Total transactions subject to own funds requirements for CVA risk	**5,432**	**780**	5,153	777

Table 27: Standardised approach – CCR exposures by regulatory exposure class and risk weights ('CCR3')

		Risk weight											
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total exposure value**
1	Central governments or central banks	**2,536**	**—**	**—**	**—**	**27**	**2**	**—**	**—**	**9**	**—**	**—**	**2,574**
6	Institutions	**—**	**2,491**	**—**	**—**	**342**	**98**	**—**	**—**	**—**	**—**	**—**	**2,931**
7	Corporates	**—**	**—**	**—**	**—**	**463**	**4,005**	**—**	**—**	**38**	**—**	**—**	**4,506**
11	**Total exposure value 30 June 2023**	**2,536**	**2,491**	**—**	**—**	**832**	**4,105**	**—**	**—**	**47**	**—**	**—**	**10,011**
1	Central governments or central banks	5,607	—	—	—	25	2	—	—	16	—	—	5,651
6	Institutions	—	2,599	—	—	1,075	80	—	—	—	—	—	3,755
7	Corporates	—	—	—	—	576	3,816	—	—	40	—	—	4,432
11	Total exposure value 31 December 2022	5,607	2,599	—	—	1,677	3,898	—	—	55	—	—	13,837

Table 28: IRB approach – CCR exposures by exposure class and PD scale ('CCR4')

30 June 2023	Exposure value €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	RWEA €m	Density of risk weighted exposure amounts %
PD scale							
AIRB – Central government and central banks							
0.00 to <0.15	15	0.01	4	45.0	1.0	1	7.0
Sub-total	15	0.01	4	45.0	1.0	1	7.0
AIRB – Corporates							
0.00 to <0.15	197	0.09	19	45.0	2.0	76	39.0
0.15 to <0.25	4	0.22	1	45.0	4.0	3	75.0
0.50 to <0.75	4	0.63	1	45.0	5.0	6	150.0
Sub-total	205	0.10	21	45.0	3.0	85	41.0
AIRB – Institutions							
0.00 to <0.15	2446	0.07	353	45.0	1.0	470	19.0
0.15 to <0.25	207	0.22	37	45.0	3.0	134	65.0
0.25 to <0.50	27	0.37	15	45.0	1.0	16	59.0
0.50 to <0.75	14	0.63	4	45.0	1.0	9	64.0
0.75 to <2.50	58	0.98	15	46.0	1.0	51	88.0
2.50 to <10.00	3	3.79	7	49.0	1.0	5	167.0
Sub-total	2755	0.11	431	45.0	1.0	685	25.0
AIRB – Total at 30 Jun 2023	2975	0.11	456	45.0	1.0	771	26.0
FIRB – Corporates							
0.00 to <0.15	4128	0.07	1755	45.0	2.0	973	24.0
0.15 to <0.25	407	0.22	226	45.0	1.0	176	43.0
0.25 to <0.50	209	0.37	166	45.0	2.0	117	56.0
0.50 to <0.75	161	0.63	115	45.0	2.0	129	80.0
0.75 to <2.50	499	1.56	398	45.0	2.0	589	118.0
2.50 to <10.00	58	4.08	99	45.0	2.0	87	150.0
10.00 to <100.00	15	16.84	17	45.0	2.0	37	247.0
100.00 (Default)	12	100.00	8	45.0	2.0	—	—
FIRB – Total at 30 Jun 2023	5489	0.55	2784	45.0	2.0	2108	38.0
Total (all portfolios) at 30 Jun 2023	8464	0.39	3240	45.0	2.0	2879	34.0

Table 29: Composition of collateral for CCR exposures ('CCR5')

		Collateral used in derivative transactions				Collateral used in SFTs			
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
	Collateral type	Segregated €m	Un-segregated €m	Segregated €m	Un-segregated €m	Segregated €m	Un-segregated €m	Segregated €m	Un-segregated €m
1	Cash – domestic currency	—	32,634	178	26,046	—	45	—	—
2	Cash – other currencies	—	8,456	—	5,815	—	2	—	—
3	Domestic sovereign debt	142	808	—	317	—	20,396	—	18,259
4	Other sovereign debt	1,293	11,539	344	775	—	53,264	—	38,381
6	Corporate bonds	273	24,179	9	—	—	4,673	—	1,842
7	Equity securities	—	—	—	—	—	1,152	—	806
8	Other collateral	—	1,380	—	—	—	—	—	—
9	**Total at 30 Jun 2023**	1,708	78,996	531	32,953	—	79,532	—	59,288

Non-Financial Risk

Overview

In accordance with the French Order of 3 November 2014 as modified on 25 February 2021 and the Operational Risk Functional Instructions Manual, operational risk is defined within HSBC Group as a risk event which materialises due to:

- inadequate or failed internal processes, people and systems;
- external events, including Legal risk.

This risk includes notably external or internal fraud risk, non-authorised activities, errors and omissions - including low probability events that would result in a high value loss should they arise – and risks related to models.

HSBC Continental Europe classifies losses using the following taxonomy, comprising seven level 1 risk categories: Financial Reporting and Tax Risk, Financial Crime and Fraud Risk, Regulatory Compliance Risk, Legal Risk, Resilience Risk, Model Risk and People Risk.

Further explanation of HSBC Continental Europe's approach to managing operational risk can be found on page 156 of HSBC Continental Europe's Universal Registration Document 2022.

Table 31: Operational risk – RWA

	30 Jun 2023		31 Dec 2022	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Own funds requirement for operational risk	**5,677**	**454**	5,677	454

Liquidity and funding

Liquidity management across the group

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

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

Strategies and processes in the management of liquidity risk

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

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

Structure and organisation of the liquidity risk management function

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

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

- Asset, Liability and Capital Management Committee ('ALCO'); and
- Annual Internal Liquidity Adequacy Assessment ('ILAA') process used to validate risk tolerance and set risk appetite.

Management of liquidity and funding risk

Liquidity coverage ratio

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

Table 32: Quantitative information on LCR ('LIQ1')

	Quarter ended							
	30 Jun 2023		31 Mar 2023		31 Dec 2022		30 Sep 2022	
	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)		**66,031**		59,303		52,471		47,120
Cash – Outflows								
Retail deposits and small business funding	**29,693**	**2,449**	28,452	2,351	27,196	2,242	26,389	2,162
– *of which:* *stable deposits*	***17,816***	***891***	*16,915*	*846*	*16,093*	*805*	*15,654*	*783*
less stable deposits	***11,877***	***1,558***	*11,537*	*1,506*	*11,103*	*1,437*	*10,735*	*1,379*
Unsecured wholesale funding	**72,403**	**31,401**	64,870	28,707	58,488	26,245	54,360	24,564
– Operational deposits (all counterparties) and deposits in networks of cooperative banks	**29,854**	**7,398**	25,281	6,265	21,069	5,219	17,679	4,379
– Non-operational deposits (all counterparties)	**42,100**	**23,553**	39,127	21,981	36,909	20,516	36,203	19,707
– Unsecured debt	**449**	**449**	462	462	510	510	478	478
Secured wholesale funding		**2,563**		2,611		2,219		1,494
Additional requirements	**62,489**	**16,385**	58,039	15,453	53,831	13,797	52,073	12,393
– Outflows related to derivative exposures and other collateral requirements	**5,362**	**4,948**	4,816	4,540	3,766	3,675	2,682	2,682
– Outflows related to loss of funding on debt products	**—**	**—**	—	—	—	—	—	—
– Credit and liquidity facilities	**57,127**	**11,437**	53,224	10,913	50,065	10,122	49,391	9,710
Other contractual funding obligations	**16,133**	**11,006**	13,056	7,213	11,290	4,627	10,403	2,780
Other contingent funding obligations	**21,452**	**1,173**	20,661	1,188	19,490	1,175	18,225	1,139
Total cash outflows		**64,977**		57,524		50,304		44,532
Cash – Inflows								
Secured lending transactions (including reverse repos)	**39,619**	**3,934**	39,519	4,198	40,405	3,941	42,728	3,151
Inflows from fully performing exposures	**5,349**	**4,342**	4,875	3,816	4,347	3,249	3,967	2,898
Other cash inflows	**21,965**	**15,211**	18,028	11,318	15,032	8,322	12,301	5,519
(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	**66,933**	**23,486**	62,422	19,332	59,784	15,511	58,996	11,568
Fully exempt inflows	**—**	**—**	—	—	—	—	—	—
Inflows subject to 90% cap	**—**	**—**	—	—	—	—	—	—
Inflows subject to 75% cap	**66,849**	**23,486**	62,401	19,332	59,784	15,511	58,704	11,568
Total adjusted value								
Liquidity buffer		**66,031**		59,303		52,471		47,120
Total net cash outflows		**41,491**		38,192		34,793		32,964
Liquidity coverage ratio %[1]		**159**		154		150		144

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

Net stable funding ratio

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

The table below shows the average NSFR In accordance with Regulation EU 2019/876 of the European Parliament ('CRR II') over the last four quarters.

Table 33: Net Stable Funding Ratio ('LIQ2')

	Unweighted value by residual maturity				
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	€m	€m	€m	€m	€m
At 30 Jun 2023					
Available stable funding ('ASF') Items					
Capital items and instruments	11,407	—	—	1,854	13,261
Own funds	11,407	—	—	1,854	13,261
Retail deposits	—	29,705	—	—	27,282
Stable deposits	—	18,119	—	—	17,213
Less stable deposits	—	11,586	—	—	10,069
Wholesale funding	—	83,957	2,785	2,243	36,011
Operational deposits	—	38,426	—	—	13,416
Other wholesale funding	—	45,531	2,785	2,243	22,595
Interdependent liabilities	—	—	—	—	—
Other liabilities	—	—	—	—	—
NSFR derivative liabilities	—	—	—	—	—
All other liabilities and capital instruments not included in the above categories	—	35,340	1,800	17,804	18,704
Total available stable funding ('ASF')	—	—	—	—	95,258
Required stable funding ('RSF') Items	—	—	—	—	—
Total high-quality liquid assets ('HQLA')	—	—	—	—	4,899
Assets encumbered for more than 12m in cover pool	—	—	—	18,313	17,576
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	—	57,277	—	—	—
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions	—	43,312	1,766	6,658	9,881
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs	—	7,068	3,877	30,511	30,397
– *of which: with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*	—	*157*	*97*	*12,305*	*10,675*
Performing residential mortgages	—	900	768	18,600	—
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	—	3,084	2	208	392
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	—	646	—	—	549
NSFR derivative assets	—	415		—	415
NSFR derivative liabilities before deduction of variation margin posted	—	18,239	—	—	912
All other assets not included in the above categories	—	7,664	—	5,042	5,185
Off-balance sheet items	—	7,490	3,307	72,087	3,873
Total RSF	—	—	—	—	69,181
Net Stable Funding Ratio (%)					138

Internal Liquidity Metric (ILM)

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

Liquid assets

Liquid assets comprise unencumbered liquid securities and available cash held by Markets Treasury and Global Markets. They are managed on a consolidated basis. The LFRF assigns ultimate control of all unencumbered assets and sources of liquidity to Markets Treasury.

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

Overall adequacy of liquidity risk management

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

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

The two key objectives of the ILAA are to:

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

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

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

Liquidity stress testing

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

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

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

HSBC Group's business strategy and overall liquidity risk profile

The key aspects of the LFRF are:

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

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

Further details on our Liquidity and funding risk may be found on page 147 of HSBC Continental Europe's Universal Registration Document 2022.

Interest rate risk in the banking book

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

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

The principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected NII under varying interest rate scenarios (i.e. simulation modelling), where all other economic variables are held constant. Sensitivity of net interest income reflects the bank's sensitivity of earnings due to changes in market interest rates. This is assessed over 1 year and 5 years and is calculated on a quarterly basis. Forecasts include business line rate pass-on assumptions, re-investment of maturing assets and liabilities at market rates per shock scenario, and prepayment risk. NII is modelled on the assumption that the risk profile at the month end remains constant throughout the forecast horizon.

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

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

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

The ΔNII is indicative and based on scenarios and assumptions prescribed by the EBA Guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2022/14). This hypothetical base case projection of our NII (excluding insurance) follows the currency specific Parallel Up and Down EBA shock scenarios (200bps for EUR).

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

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

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

- For ΔEVE, commercial margins and other spread components have been excluded from the interest cash flow calculations and all balance sheet items are discounted at the risk free rate; all CET1 instruments are excluded;
- For ΔNII, a constant balance sheet is assumed; commercial margins are included; all forecast market rates are based on implied forward rates from the spot curves at each quarter-end; all interest rate shocks are parallel shocks; pass-on assumptions are applied for managed rate products; customer pricing includes flooring where there are contractual obligations, and; customer optionality including prepayment and early redemption risk is assumed.
- The repricing maturity of non-maturing deposits is assessed using both:
  - a historical analysis at product level to confirm the stable part of deposits in respect of past interest rate environment;
  - business expectations of customer behaviour with respect to stressed scenarios;
  - as at end June 2023, repricing maturities for non-maturity deposits from retail and non-financial wholesale counterparties were:

in months	Average repricing maturity	Longest repricing maturity
Core part	**14**	**60**
Full amount	**12**	**60**

- Behavioural assumptions are reviewed and challenged at least on an annual basis in line with the bank's policy and procedures;
- For the modelling of our retail banking activities in France that will be sold, we assume a maturity of 1 January 2024, which is the date of the targeted closure of the transaction based on the Memorandum of Understanding of 14 June 2023. The portfolio of home loans that will be retained is modelled based on the original maturities.

An EVE value represents the present value of future banking book cashflows that could be distributed to equity providers under a managed run off scenario. EVE is a regulatory metric and limit of sensitivity are prescribed against Tier 1 Capital in the case of the Supervisory Outlier Test (SOT).

Interest rate risk in the banking book will give rise to volatility in expected NII due to movements in interest rates. One way to measure interest rate risk in the banking book is to assess this volatility using NII sensitivity analysis. As at 30 June 2023, the definition of a 'large decline' of the NII in the case of the SOT on NII was still pending publication in the Official Journal of the European Union.

Table 34: Interest rate risks of non-trading book activities ('IRRBB1')

	ΔEVE €m	ΔNII €m
At 30 Jun 2023		
Parallel shock up	**(516)**	**379**
Parallel shock down	**193**	**(408)**
Steepener shock	**(51)**	
Flattener shock	**(39)**	
Short rates shock up	**(191)**	
Short rates shock down	**96**	
At 31 Dec 2022[1]		
Parallel shock up	(357)	390
Parallel shock down	197	(420)
Steepener shock	(6)	
Flattener shock	(60)	
Short rates shock up	(166)	
Short rates shock down	81	

1 *NII comparatives for 31 December 2022 have been restated to show the impact on a comparable basis to 30 June 2023, i.e. based on the EBA's +/-2% parallel rate shock scenario*

ESG Risks

Qualitative information on environmental risk

Strategy & Business processes

The HSBC Group's strategy centres around four pillars: i) focus on areas of strengths, ii) digitise at scale, iii) energise for growth, and iv) support the transition to a net zero global economy. As part of the net zero ambition, the HSBC Group is on a journey to integrate environmental, social and governance (‘ESG’) principles throughout its organisation, and important steps have been taken to embed sustainability into corporate strategy, financial planning and business model.

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. Characterised by a deep and progressive ESG regulatory landscape, Europe as a region has a growing need to expand risk management and disclosure beyond climate to environmental risks (e.g. biodiversity) as well as other aspects of ESG beyond the environment (e.g. human rights).

One of the Group’s strategic pillars is to support the transition to a net zero global economy. The Group’s ambition is to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050. The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels. The transition to net zero is one of the biggest challenges faced by HSBC. Success will require governments, customers and finance providers to work together. The Group’s global footprint means that many of its clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means that the Group’s transition will be challenging, but is an opportunity to make an impact. The Group recognises that, to achieve its climate ambition it needs to be transparent on the opportunities, challenges, related risks and progress it makes. To deliver on this ambition, it requires enhanced processes and controls, and new sources of data. The Group continues to invest in climate resources and skills, and to develop its business management process to integrate climate impacts. Until systems, processes, controls and governance are enhanced, certain aspects of the Group’s reporting will rely on manual sourcing and categorisation of data. In 2023, the Group continues to review its approach to disclosures. Reporting will need to evolve to keep pace with market developments. HSBC Continental Europe’s approach to sustainability is aligned with that of HSBC Group.

HSBC Continental Europe shares this ambition to help individuals, governments and businesses achieve their aims of developing a sustainable future for all. In this context, HSBC Continental Europe supports the Group’s ambition to transition to net zero and has developed a sustainability framework anchored on the HSBC Group’s public commitments and aligned to local regulatory requirements.

Become a Net Zero bank in the bank's portfolio

In 2020, the HSBC Group set out ambitions to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. To align with its net zero ambition, HSBC Continental Europe implements the science-based sustainability risk policies published by the HSBC Group, that define its appetite for business in specific sectors and encourage customers to meet international standards. Recently, the HSBC Group published two policies including the Coal Policy to phase out the financing of coal-fired power and thermal coal mining (by 2030 in the EU and in the Organisation for Economic Cooperation and Development (‘OECD’), and by 2040 in all other markets); and the Energy Policy where HSBC states, the HSBC Group will no longer provide new finance or advisory services for the specific purpose of projects pertaining to new oil and gas fields and related infrastructure whose primary use is in conjunction with new fields.

In addition to following HSBC Group's policies, HSBC Continental Europe seeks to analyse and track its financed emissions. Financed emissions link the financing provided to customers and their activities in the real economy and provide an indication of the greenhouse gas emissions associated with those activities. They form part of the bank’s scope 3 emissions, which include emissions associated with the use of a company’s products and services. In 2021, HSBC Continental Europe started disclosing its financed emissions for two emissions-intensive sectors: oil and gas, and power and utilities. In 2022, it has also started to disclose the financed emissions for four additional sectors: cement; iron, steel and aluminium; automotive; and aviation. HSBC Continental Europe is assessing its exposure to thermal coal as part of HSBC's commitment to phase-out thermal coal financing in the EU and the OECD by 2030.

Financed emissions for the shipping sector were analysed to establish a baseline. During the analysis data gaps were noted in reported emissions and modelled data from external vendors at the company level. The HSBC Group has chosen to defer setting a baseline and target for this sector until there is sufficient reliable data to support the work, allowing the Group to accurately set a baseline and track progress towards net zero. In line with Group, HSBC Continental Europe will continue to engage with strategic clients within the sector to encourage disclosure.

HSBC analysis of financed emissions is based upon the availability of quality data and industry standards which inform its approach. The HSBC Group continues to engage with industry initiatives to help formulate a methodology for assessing and measuring financed emissions such as the Science Based Targets Initiative (‘SBTI’) and the Net-Zero Banking Alliance (‘NZBA’), which seeks to reinforce, accelerate, and support the implementation of decarbonisation strategies and targets for the banking sector.

Support customers on their transition to Net Zero

The 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. Since 2020, to achieve this ambition, HSBC Continental Europe has supported customers' transition to net zero and helped build a sustainable future by providing and facilitating USD 88.4 billion of sustainable finance and investment[1]. This amount includes lending facilities, capital markets facilitated transactions and investments.

1 *These numbers include contributions from HSBC Continental Europe S.A., Germany and HSBC Bank Malta p.l.c. since 2020.*

To understand the impact of climate change on customers, HSBC Continental Europe is working with customers to capture holistic information on their exposure to the transition to net zero emissions, and the risks and opportunities in 5 key areas (emissions, reduction targets, plans, transition risks, physical risks). Together with external data sources, responses will feed into a new Climate Score element of the overall ESG score. The score will be used to support commercial decision-making and will provide a quantitative value that will help embed climate risk into credit assessments.

To support this, HSBC Continental Europe has a training plan in place to build the culture and capabilities needed and to successfully embed climate considerations into daily decision making. The Sustainability Academy, which gathers all learning resources to develop the right skill set, was launched in 2022 and is available to all employees.

Become a Net Zero bank in its operations and supply chain by 2030 or sooner

In line with HSBC Group's ambition to reduce its energy consumption by 50% by 2030 and to achieve 100% renewable power across its operations by 2030, HSBC Continental Europe is focusing its action on four objectives: reduce operational greenhouse gas ('GHG') emissions, including those related to business travel, improve energy efficiency, reduce production of non-recycled waste and reduce paper consumption. In 2022, greenhouse gas emissions per Full Time Employee were 0.43 tonnes equivalent CO2, a 10 per cent decrease versus 2021.

In line with the HSBC Bank plc framework to deliver the HSBC Group's commitments, HSBC Continental Europe has structured a program of work to fulfil regulatory requirements with a particular focus on the European Central Bank ('ECB').

Work is underway with the global lines of business and functions to build tools, competencies, and targets to identify and assess the impact of the Climate-related and Environmental risks on the bank's activity and meet ECB expectations.

Governance

Responsibilities of the management body

The Board of HSBC Continental Europe has overall accountability for determining the strategy, including the environmental and climate transition strategy and oversight of the risk management framework including climate-related and environmental risks. Board members receive ESG-related training as part of their ongoing development. In 2022, two training sessions were provided on climate related topics. The Board oversees the development of the approach, execution and associated reporting by the executive management. The HSBC Continental Europe Risk Committee, a subcommittee of the HSBC Continental Europe Board, is responsible for overseeing and advising the Board on risk-related matters, including climate-related and environmental risks.

The Risk Committee has regularly reviewed, discussed and challenged climate-related and environmental risks throughout 2022 with dedicated presentations or exchange on ESG and climate risks. The Chairman of the Risk Committee has reported, on a regular basis the key points discussed during Risk Committee meetings and on recommendations formulated by the Risk Committee to the Board.

From an executive perspective, the HSBC Continental Europe CEO and Deputy CEO, together with the Executive Committee, recommend the climate and environmental transition strategy and climate risk appetite to the Board for approval.

Integration of environmental factors, organisational structure both within business lines and internal control functions

The HSBC Continental Europe approach to climate and environmental risk management is aligned to the group-wide risk management framework and three lines of defence model, which sets out how HSBC Continental Europe identifies, assesses and manages its risks.

This approach ensures both the Board and senior management have visibility and oversight of the key environmental and climate risks.

The Risk Appetite Statement and Key Metric Indicators continue to be enhanced in 2023 in order to ensure that metrics provide a proper monitoring of ESG risk exposures.

The initial measures are focused on the oversight and management of the key climate-related risks for the bank relative to transition risks (wholesale credit risk and retail credit risk) and physical risks.

Integration of measures to manage environmental risk

Significant improvements have been made throughout 2022 to further embed climate-related and environmental risks within governance. The governance framework has been strengthened to ensure that all upcoming sustainable finance regulations and obligations are understood and implemented whilst supporting the implementation of the net zero and business strategy. The ESG and Climate Governance Framework builds on existing governance structures with the addition of dedicated committees at executive level and working groups.

The HSBC Continental Europe governance replicates that in place at the Group's and HSBC Bank plc's level as appropriate, noting the Group's ambition to include ESG into the existing business framework where possible:

- The Head of Climate Change Europe covers commercial and external engagements, reporting to the HBEU CEO and Group Chief Sustainability Officer ('CSO').
- A new Head of Sustainability Europe was appointed in June 2023 to lead internal execution and transformation, reporting to the HBEU Chief of Staff ('CoS') and the Group Sustainability CoS.
- The Head of Corporate Sustainability for HSBC Continental Europe leads the deployment and effective implementation of the sustainability strategy, reporting to the Head of Sustainability Europe and to the HSBC Continental Europe Chief Executive Officer. In this role she is member of the HSBC Continental Europe Executive Committee.
- An ESG and climate risk manager has responsibility for climate-related and environmental risks, reporting to the Head of Enterprise Risk Management, for HSBC Continental Europe

Role of committees and lines of reporting

The HSBC Continental Europe Board has been informed at each quarterly meeting through the CEO report, the Risk Committee Chair's report and the CRO report on the climate-related and environmental risks in the overall business strategy and risk management framework.

At management level, ESG governance is undertaken by the ESG Steering Committee and the Climate and ESG Risk Oversight Forum. This governance has been designed to ensure the HSBC Continental Europe Executive Committee and Board are fully aware of ESG topics and to strengthen the governance and management information ('MI') on climate-related risks.

ESG Steering Committee ('Steerco')

The ESG Steering Committee was established, chaired by the HSBC Continental Europe CEO, to set the strategic direction at entity level in respect of ESG and to oversee the remediation and implementation of the regulatory expectations. To ensure consistency, the ESG Steering Committee forms part of the considerations of the HSBC Continental Europe Executive Committee and HSBC Bank plc (HBEU) sustainability governance.

Climate and ESG Risk Oversight Forum ('CESGROF')

The CESGROF has also been established, chaired by the Head of Enterprise Risk Management, to shape and oversee HSBC Continental Europe's approach to managing climate-related and environmental risks. The forum ensures a regular review of climate-related and environment risks across HSBC Continental Europe through the three lines of defence enabling an assessment of the risks involved in the HSBC Continental Europe perimeter and how they are controlled and monitored, giving clear, explicit and dedicated focus to current and forward-looking aspects of risks. This committee has an escalation path to the HSBC Continental Europe Risk Management Meeting and HSBC Europe sustainability governance, in addition to providing risk oversight to the ESG Steerco.

The roles and responsibilities of the governance structure for climate-related and environmental risks are defined in the terms of reference of each governance forum.

On the non-executive side, the Risk Committee's Terms of Reference were updated in 2022 to specifically mention the climate and environmental risks among risks related matters that are overseen by this committee. ESG governance approach will continue to develop in line with the evolving approach to ESG matters and stakeholders' expectations.

Alignment of remuneration policy

A number of climate-related metrics are used in HSBC Continental Europe within annual incentive scorecards, including those of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, Chief Risk Officer and other senior managers in business and global functions. The completion of these weighted climate-related goals forms part of the annual performance assessment and the associated performance rating basis of the variable remuneration. The goals are linked to the climate ambition of the bank of achieving net zero in its operations and supply chain by 2030, developing sustainable finance and supporting clients in their transition to net zero and a sustainable future.

This approach is currently expanded more widely across the organization in all businesses and functions with specific climate/environmental/social objectives assigned to all or part of the employees.

Risk management

Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework including definitions, methodologies, and international standards

The initial approach to managing climate risk was focused on understanding physical and transition impacts across five priority risk types: wholesale credit risk, retail credit risk, reputational risk, resilience risk and regulatory compliance risk.

Climate risk is managed across all HSBC businesses and climate considerations have been integrated into the Bank risk taxonomy in line with HSBC Group-wide risk management framework (via the policies and controls for the existing risks, where appropriate) and the three lines of defence model.

Greenwashing risk impacts across HSBC's Risk Taxonomy and is managed in line with the Risk Management Framework. Greenwashing risk is not a standalone risk type. In practice, this means that we are currently working to ensure that:

- Greenwashing risk is managed through existing responsibilities under the 3LOD defence model.
- Policies, procedures, and processes are enhanced to identify, mitigate and escalate greenwashing risks where appropriate.
- Existing frameworks, such as the Conduct Approach, Reputational Risk Framework and Product Governance Framework are leveraged and required tools, systems and reporting are implemented to monitor and mitigate greenwashing risks.

Stress testing and scenario analysis support the HSBC Continental Europe strategy by assessing its position under a range of climate scenarios. It helps to build Bank's awareness of the potential impact of climate change, plan for the future and meet growing regulatory requirements.

In 2022, HSBC Group (including HSBC Continental Europe) delivered its first internal climate scenario analysis exercise where four bespoke scenarios have been used. It was designed to articulate HSBC's view of the range of potential outcomes for global climate change.

These scenarios, which reflect different levels of physical and transition risk and are varied by severity and probability, were:

- the Net Zero scenario, which aligns with HSBC net zero strategy and is consistent with the Paris Agreement;
- the Current Commitments scenario, which assumes that climate action is limited to the current governmental commitments and pledges;
- the Downside Transition Risk scenario, which assumes that climate action is delayed until 2030; and
- the Downside Physical Risk scenario, which assumes climate action is limited to current governmental policies.

Climate scenario analysis allows HSBC Continental Europe to model how different potential climate pathways may affect its customers and portfolios, particularly in respect of credit losses.

In 2022, climate considerations were incorporated into HSBC mortgage origination processes for the retail business and new money request processes for the wholesale business. Climate risk scoring tool also continued to be enhanced, which will enable the Bank to assess its customers' exposures to climate risk.

HSBC Continental Europe climate risk appetite supports the oversight and management of the financial and non-financial risks from climate change and supports the business to deliver its climate ambition in a safe and sustainable way.

This approach gives the Board and senior management visibility and oversight of the climate risks impacting HSBC Continental Europe and helps in the identification of opportunities to deliver sustainable growth in support of the bank' climate ambition.

Description of the link between environmental risks and traditional banking risks

In September 2022, HSBC Continental Europe ran a qualitative entity level assessment of how climate and environmental risks may impact risk types within the HSBC taxonomy over a 12-month horizon. The most material risks identified are driven by regulatory and/or reputational impacts in the following risk area: Strategic Risk/Reputational Risk; Regulatory compliance/Breach of Regulatory Duty to Clients and Other Counterparties; Resilience risk/Third Party Risk and Financial Reporting Risk.

A specific quantitative assessment of the climate risk impacts on credit risk, liquidity risk and operational risk was also delivered. These results were used to begin to perform an assessment of the materiality of climate and environmental risks, across the entire risk map. This assessment will help to provide a holistic view of the most significant climate and environmental risks within HSBC Continental Europe.

In addition, in 2022, HSBC Continental Europe conducted its annual update of the analysis on the most material ESG-related risks impacting HSBC Continental Europe including an assessment of the environmental consequences of a number of activities including prevention/mitigation of pollution, circular economy, climate change and biodiversity.

The next steps are for HSBC Continental Europe to enhance the definition of environmental-related risks within this framework and consider further within day-to-day risk management practices.

In 2021, the Group joined several industry working groups dedicated to help in the assessment and management of nature-related risks, such as the Taskforce on Nature-related Financial Disclosure for which, HSBC Continental Europe is particularly involved with its participation to a pilot test.

In 2023, HSBC Continental Europe with the support of the HSBC Group has made progress in understanding how to assess and monitor nature-related risks.

- Analysis started in 4Q 2022, to assess corporate client's reliance on ecosystem services, including the nature-related benefits crucial for the provision of food and drinking water, which demonstrated customers highly dependency on water availability.
- Participation as pilot in draft version of the Taskforce on Nature-related Financial Disclosures framework for risk and opportunity management and disclosure, which helped HSBC Continental Europe to understand its implications and provide feedback ahead of its release in September 2023.
- The group continues to develop its sustainability policies. A new deforestation policy is intended to be published, informed by scientific and international guidance, in the future.

All these activities will ensure nature related issues are embedded into the HSBC transition plan and the definition of the risk management framework.

Activities, commitments and exposures contributing to mitigate environmental risks

The HSBC Group is accelerating in the deployment of new solutions to the climate crisis and supporting the transition of industries and markets to a net zero future, moving to net zero at its own level as HSBC helps its customers do so too.

Achieving net zero goes hand in hand with halting and reversing nature loss. Nature loss, which refers to the decline of natural capital, ecosystem services and biodiversity, is one of the greatest systemic risks to the global economy and the health of people and the planet.

In taking steps to halt nature loss, the HSBC Group will continue to make progress with the investment and financing of biodiversity and nature-based solutions through client products and services and partnerships.

The HSBC Group published in October 2022 a Statement on Nature[2]. This reconfirms the intent to publish a new deforestation policy informed by scientific and international guidance in the future.

2 *https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/221019-hsbc-statement-on-nature.pdf?download=1*

Implementation of tools and processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels

The HSBC Group recognises that businesses can have an impact on the environment and has developed, implemented and refined its approach to working with its business customers to understand and manage these issues.

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

These policies define the appetite of the bank for business in these sectors and seek to encourage customers to meet good international standards of practice. Where HSBC identifies activities that could cause material negative impacts, it will only provide finance if it can confirm clients are managing these risks responsibly. Such customers are subject to greater due diligence and generally require additional approval by sustainability risk specialists. The bank's sustainability policies continue to be aligned with its approach to climate risk, and its net zero ambition.

In 2003, the bank became a signatory to the Equator Principles, which form a voluntary framework to be used by financial institutions in assessing and managing the social and environmental impact of infrastructure projects.

Climate risk is managed in HSBC Continental Europe banking portfolios through its risk appetite and policies for financial and non-financial risks. For wholesale customers, a corporate questionnaire is used as part of HSBC transition risk framework to understand the customer's climate strategies and risk. HSBC Continental Europe's climate change stress testing and scenario analysis are also used to provide insights on the long-term effects of transition and physical risks across retail and wholesale banking portfolios. In December 2022, the Group announced its revised energy policy which is used to engage with customers in this sector to help them transition to cleaner, safer and cheaper energy alternatives.

The HSBC Group sustainability risk policies restrict financing activities which have a negative impact on nature. Whilst a number of Group sectoral policies have such restrictions, HSBC Forestry and Agricultural Commodities policies focus specifically on a key impact: deforestation. The Group plans to release a revised Deforestation Policy, informed by scientific and international guidance, in the future.

Relationship managers are the primary point of contact for HSBC Continental Europe customers and are responsible for checking annually whether customers meet applicable policies. A network of Sustainability Risk Managers (based in the Risk function both at HSBC Continental Europe and in the HSBC Group) provides local expertise, support, and guidance to the Businesses and to Risk (credit approvers). The sustainability risk analysis must be undertaken annually or more frequently if risk increases, with trigger events leading to re-assessment of sustainability risk.

Risk function takes into account the Sustainability Risk Rating when approving the overall risk on relation or transaction.

A wide-ranging stress testing programme is also deployed and is a key part of the HSBC Continental Europe risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on HSBC.

HSBC Continental Europe's stress testing programme assesses its capital and liquidity strength through a rigorous examination of its resilience to external shocks. As well as undertaking regulatory-driven stress tests, internal stress tests are conducted in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Climate scenario analysis is used to enrich HSBC Continental Europe's understanding of the risks and opportunities, drivers, dependencies, and challenges HSBC Continental Europe faces in future climate pathways.

Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile

HSBC Continental Europe's liquidity risk profile has been analysed in 2022. During the first quarter, a qualitative assessment of the impacts that climate change risk could have on the Liquid Asset Buffer ('LAB') and net outflows, has been performed. Overall, the initial assessment is that the risk of climate change to liquidity and funding is low, meaning only minor expected impact with low likelihood.

In 4Q 2022, a quantitative assessment of how climate-related liquidity risks can arise and impact HSBC Continental Europe has been developed. The analysis showed that impacts are limited over a liquidity timeframe considering the market footprint of the bank combined with the relative limited exposure to risky sectors. This is a first step in the calibration of HSBC Continental Europe's climate risk testing framework and additional enhancements will follow in 2023.

Data availability, quality and accuracy, and efforts to improve these aspects

HSBC Continental Europe has a holistic approach to data governance which includes all of the risk function as well as the business lines and other functions. This is set out within the Group Data Management Policy and Controls which covers Environmental Risk data. The HSBC Group's data management commitments are captured within its Data Management Procedures and also align to Basel Committee on Banking Supervision "Principles for Effective Risk Data Aggregation and Risk Reporting ('BCBS 239')" requirements. Environmental Risk data is in scope for BCBS 239.

The Group Data Management Procedure seeks to embed effective data management in business activities and processes by articulating the activities that must be incorporated across the Group (including HSBC Continental Europe). The Procedure applies to all users and providers of data in the HSBC Group and assigns responsibility to all staff for managing the quality of data in the processes and systems that they own. Complementing the Data Management Procedure is the BCBS 239 Compliance Framework. This defines the minimum standards to be met when aggregating and reporting environmental risk data. The documents have been designed to reflect and implement the BCBS 239 principles, and adherence to the standards within the Framework is mandatory for all applicable HSBC Continental Europe areas.

Guidance is progressively provided in terms of reporting environmental risk which can be built with current data. When data gaps are identified, HSBC Continental Europe relies on external vendors when possible. Current internal data does not allow proper identification of green products under the EU taxonomy until the data is aligned. Lists of green bonds and loans are gathered from specific teams, including prospectus documents for green bonds, allowing to identify the use of proceeds. Energy Performance Certificate ('EPC') ratings are not available in internal HSBC Continental Europe systems; therefore, calculation model is used to estimate the energy efficiency information. EPC ratings are gathered manually from relationship managers to capture the information in internal systems.

Qualitative information on social risk

HSBC Continental Europe, as a major banking and financial services organization, faces social risks. Social risks, as defined by the Official Journal of the European Union (Article 1, Amendments to Implementing Regulation (EU) 2021/637, p. 16), are understood as the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of social factors on the institution's counterparties or invested assets. As defined by the European Banking Authority ('EBA'), social aspects include human rights violation, labour rights, income inequality, lack of human rights, customer safety and protection, privacy, poverty and non-discrimination. Furthermore, climate change and transition to a low carbon economy have social impacts that include changes to the job market. These include the decrease in the demand for certain jobs and skills, the emergence of new jobs and skills, consumers' changing preferences, shareholders' willingness to swiftly integrate climate, environmental and social changes in their companies.

HSBC Continental Europe's Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. Progress against ESG ambitions is reviewed through Board discussion and review of key topics such as update on net zero, customer experiences and employee sentiments. Board members receive ESG-related training as part of their ongoing development. Given the wide-ranging remit of ESG matters, the governance activities are managed through a combination of specialist governance infrastructure and regular meetings and committees, where appropriate. These include the Disclosure Committee, which provides oversight for the scope and content of ESG disclosures, and the Group People Committee, which provides oversight support for the Group's approach to performance management.

Human Rights

Strategy and business processes

HSBC Continental Europe, as part of the HSBC Group, takes into account in its strategy, local contexts, laws and regulations of the countries in which it operates. Relevant international standards are used to determine appropriate framework to comply with human rights. HSBC Continental Europe seeks to raise awareness of human rights by promoting good practice through its business conduct.

As a financial services organization, HSBC Continental Europe can have an impact on the human rights of a range of stakeholders, including as an employer, a provider of financial services, a buyer of goods and services and an investor.

From an employee perspective, HSBC Continental Europe requires its employees to treat colleagues with dignity and respect, creating an inclusive environment. Employees are made aware of their employment rights and duties through a variety of channels, including written employment contracts and policies, procedures in employee handbooks, on employee websites and a code of conduct. Employees are trained on a range of human rights related topics including but not limited to diversity and inclusion, bullying and harassment, racism, data privacy. In addition, employees receive regular training as part of HSBC's broader financial crime control framework, covering anti-money laundering, anti-bribery and corruption and financial sanctions. Each of these interests intersects with human rights risk.

From a customer standpoint, the HSBC Group has developed sustainability risk policies which are also used at HSBC Continental Europe level. The policies apply to main financing products offered to customers. Customers are engaged, where appropriate, and supported in adopting more sustainable practices. The sustainability risk policies on forestry, agricultural commodities, metals and mining, and energy specifically refer to human right considerations. They include issues such as land rights, harmful or exploitative child labour or forced labour, rights of local communities, workers' rights and the health and safety of communities. An annual review is carried out of Global Banking and Markets and Commercial Banking clients operating in sectors covered by the Group's sector policies, and all transactions in these sectors are also reviewed.

Finally, regarding suppliers, the code of conduct, revised in 2022, sets out HSBC's commitments to the environment, diversity and human rights, and which outlines the minimum commitments expected by suppliers on these issues. Commitment to the code is formalised with clauses in supplier contracts, which support the right to audit and act if a breach is discovered.

HSBC Continental Europe's Duty of Care Plan is supported by the framework defined by HSBC related to human rights. Commitments have been made and rules and procedures adopted at HSBC Group level to mitigate risks and prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment.

Policies and risk management

In 2022, the process of adapting internal risk management procedures has begun to reflect key learnings from the work on salient human rights issues described above. This included the development of global guidance on human rights, which incorporates the salient human rights issues assessment and provides colleagues with clear principles and practical advice, including case studies, on how to identify, prevent, mitigate and account for how impacts on human rights are addressed. Additional human rights elements have been incorporated into existing procurement processes and supplier code of conduct, and existing human rights due diligence processes have been extended for suppliers and business customers.

HSBC Continental Europe has defined employment practices and relation policy set in Human Resources ('HR') procedure guideline within a Functional Instruction Manual ('FIM'). This manual aims to ensure that HSBC Continental Europe as an employer takes all appropriate steps to meet employment laws, regulatory commitments and obligations to workforce. These includes and are not limited to human rights violation, labour rights, income inequality, lack of human rights, privacy, poverty and non-discrimination matters.

Failure to comply with the policy could result in financial loss, legal or regulatory action, reputational damage or impacts on employees. In addition to employee impacts, failure to comply with the requirements in this policy could indirectly lead to negative impacts on the outcomes for customers. A set of controls has been defined under the Non-Financial Risk Framework and in line with non-financial risk management principles. These allow HSBC Continental Europe to identify and manage Risks and controls arising from social risks / aspects. The policy contains the minimum expectations and controls to manage non-financial risks within risk appetite.

Employee matters

Strategy and business processes

The HSBC Group promotes an inclusive organization that values differences, takes responsibility and seeks different perspectives for the overall benefit of HSBC's customers.

A dynamic culture is encouraged where employees can expect to be treated with dignity and respect. Understanding the experience of employees is critical. To do so, an annual employee survey Snapshot is conducted. This survey measures employee engagement score and captures views on topics ranging from strategy to wellbeing.

HSBC Continental Europe encourages people to speak up in particular when observing unlawful or unethical behaviour. A range of speak-up channels is offered to listen to concerns of employees. Nevertheless, it has been recognised that at times people may not feel comfortable speaking up through the usual channels. As a result, a global whistleblowing platform has been implemented. This platform allows employees to raise any concerns in confidence and, where preferred, anonymously. HSBC Confidential can be accessed in various ways, including telephone outlines, online portals and email. In this context, a yearly check is done on the way employees use HSBC Confidential channel from a performance and remuneration standpoint. Concerns are investigated proportionately and independently, and can result in disciplinary action.

Under the Exchange Meeting programme, agenda-free consultation meetings are held that managers attend without any seniority-based privileges. Staff members are free to discuss any issues they wish. Feedback from the meetings is sent to the HSBC Group. Since the programme was launched in 2012, it has been clear that employees taking part in an Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes affecting HSBC.

By valuing difference, HSBC Continental Europe can build an inclusive workforce and make use of the unique expertise, capabilities, breadth and perspectives of our colleagues for the benefit of our customers. HSBC has set the objective to achieve 35 per cent of women in senior executive positions by 2025. Furthermore, HSBC Continental Europe has signed up to the Financi'Elles charter, which contains 10 joint commitments aimed at fostering a more equitable gender balance and greater diversity in Finance sector. As part of its drive, the bank has undertaken to achieve a gender balance on HSBC Continental Europe's Executive Committee by 2024, as well as on the executive committees of its business lines and support functions. The gender balance of development programmes will help to accelerate progress towards gender equality in the talent pools. Lastly, gender balance is championed in all the bank's communications. As a result, HSBC Continental Europe has committed not to attend any event with an all-male line-up of speakers, and to make sure that gender balance and diversity are embraced at the bank's own internal events.

A comprehensive monitoring dashboard for progress in increasing the proportion of women in positions of responsibility is reviewed during the monthly meeting of HSBC Continental Europe's Executive Committee.

The bank works on unconscious bias by launching Inclusion workshops for all and continues to deliver the 'Inclusive Leadership' training programme for managers. In addition, part of the mandatory 'The Code of Conduct & me' training session deals with workplace bias and discrimination.

To broaden the reach of its inclusive business culture, HSBC Continental Europe continued its awareness building programme. This included discussions on diversity and inclusion, conferences, exchanges seminars and workshops, both directly and by drawing on its Employee Resources Group of committed employees. For France: 50/50 Partner of Balance, Pride Network France, WeHandicap! and Atypik. All those actions contribute to encourage dialogues, raise awareness and develop inclusive skills.

In addition, employees are offered internal and external tutoring and mentoring roles under voluntary programmes, giving them experience outside the confines of their day-to-day work and enabling them to develop new skills.

Attracting, integrating and retaining talented people is extremely important. Identifying and developing Talent involves both managers and employees themselves, so that the process is more coherent and consistent. Staff is recruited from a variety of backgrounds to contribute to the bank's various business lines and functions. In addition, every year, succession plans for positions considered as key are developed. There are clear guidelines to ensure that robust succession plans are in place and to promote gender balance and internal promotions. HSBC Continental Europe aims to have at least four potential replacements for each key position, with at least one female replacement for each position and an 80%/20% split of internal versus external recruits. HSBC Continental Europe requests for its recruitment service providers to provide a shortlist of candidates including at least one man and one woman and, where the position is a management or specialist position requiring more than 10 years of professional experience, at least one 'senior' candidate. A talent pool at Continental Europe level is built through various development programs like Accelerating into Leadership ('AIL') and Accelerating Female Leadership ('AFL'). In order to manage the risk of attrition of Talent, a set target attrition rate of 7 per cent has been defined.

Developing the skills of employees is critical to energising the organisation in a context where technology is developing at a rapid pace, where employability is key and a range of new and different skills (resilience, financial capability, climate knowledge, etc.) are now needed to succeed in the workplace. A culture of learning is encouraged through a range of resources, providing employees with a breadth of educational materials and opportunities. Digital, data, sustainability and personal skills are explored as part of future skills campaign. Employees identify specific skills they want to develop and assess them through a skills platform (HSBC University, Degreed learning platform, LinkedIn learning) to shape their development plan. A community of referents has been set up to share best practices and support the adoption of the platform within each business line in the Group.

The learning department is offering a wide range of awareness-raising and training activities for employees in order to contribute to the ambition of a net-zero transition by 2050:

- launch of the new Sustainability Academy (dedicated online portal on HSBC University that brings together all sustainability learning, communications and policies in one central resource). This new Academy has been created to enable transformation and growth by creating a shared mindset, developing the right skills-set and building confidence by providing current HSBC actions;
- the new learning program named 'Test your skills about climate with the En-roads tool' deployed throughout HSBC Continental Europe with several sessions scheduled;
- promotion of the AMF Sustainable Finance certification for employees wishing to benefit from it.

Other actions will be proposed throughout the year in order to encourage employees to learn more about these sustainable development topics and to share several best practices within the organization and with customers. For instance, Commercial Banking has created a region-wide Sustainable Finance Country Representative Network and expanded the Sustainable Finance Ambassador community in France. These representatives and ambassadors obtain privileged access to information, training, and specific events. In turn, they are expected to drive the strategy on the ground and act as local experts within their countries and teams.

Employees' wellbeing remains a top priority. As an example, new ways of working have been implemented, enabling more employees to work flexibly and remotely. In addition, new tools and training have been launched to support mental, physical and financial health, remote management, appropriate use of digital tools, and encourage work life balance. Helping employees to be healthy and happy is a key enabler of HSBC Continental Europe strategy. Reason why, wellbeing questions have been added in the annual Snapshot survey to get feedbacks from employees and continue to improve the approach on this topic.

In a highly connected environment, and given the massive uptake of remote working, appropriate use of professional communication tools is a key challenge for maintaining quality of life at work.

Governance

In terms of governance, there is a whistleblowing policy and procedures. In addition, a whistleblowing oversight committee provides the Group Audit Committee with periodic reports on the effectiveness of whistleblowing arrangements. The chair of the Group Audit Committee has responsibility for ensuring and overseeing the integrity, independence and effectiveness of whistleblowing policies.

Remuneration policy, being neutral and inclusive, is designed to motivate and retain the best employees and to make sure each and every employee is treated fairly. In order to reach these objectives, both attrition rate and retention rate of best performers are produced and followed per business on a monthly basis and shared with Executive Committee. In addition, pay gender analysis are performed every year to ensure consistency and fair treatment.

HSBC Continental Europe is committed to managing change while maintaining a regular dialogue with bodies representing staff, supporting managers, redeploying impacted colleagues when possible, proposing, where appropriate, adapted financial and supporting measures.

Policies and Risk Management

Global principles overlay all group policies and procedures, connecting the organisation's purpose, values, strategy and approach to risk management. They guide HSBC Continental Europe in the decisions it takes and how it operates. The Risk management framework is underpinned by the group's values and governs the HSBC Group's overall approach to managing risk. In addition, a number of internal entity led controls are in place to ensure that risk management and corporate governance activities are carried out effectively across the bank. HSBC Continental Europe uses a defined framework: the '4Cs' (Capacity, Capability, Conduct and Culture), and associated Employment practices and relations to manage employee matters. Two of the risks defined in HSBC Risk Taxonomy have been identified and considered as supporting the remediation of some of the social risks given their overarching coverage of people management guiding principles:

- Failure to comply with employment law and regulations. The risk of failing to comply with employment legislation, regulation or requirements throughout the employee journey, from hiring to leaving, which could result in HSBC Continental Europe being in breach of employment law by not treating employees in line with legislation and regulations. Following the policy will help to manage the risk of legal action, regulatory censure, reputational damage and financial loss.
- Failure to manage poor employee behaviours. The risk that, where employee behaviours are not in accordance with HSBC's values and code of conduct, they are not effectively managed; and failure to manage employee concerns. The risk that concerns raised by employees are not appropriately managed.

In the context of the 2022 analysis of the most material ESG-related risks impacting HSBC Continental Europe, two risks involving human capital have been identified:

- Risk of failure to recruit and retain talent – In a rapidly changing banking industry (digitalisation, regulatory developments, and changes in the macroeconomic environment), HSBC aims to accompany the shift in occupations by attracting, recruiting and integrating the best talent. Against a backdrop of global competition, organizations are predominantly focused on talent risks relating to capability and capacity. Capability and capacity-related talent risks include: a lack of depth of internal candidates for critical roles, an insufficient pipeline of future leaders, difficulties in retaining key people and in recruiting top talent, a failure to develop the skills and capabilities required by the business in the near future, a lack of compelling development opportunities for top talent.
- Risk of deterioration in the quality of life at work and psychosocial risks – Psycho-social risks are created by a poor working environment, inadequate working conditions, insufficient human resources or inadequate managerial practices, leading to absenteeism. Work-related stress has the potential to negatively affect an individual's psychological and physical health, as well as an organisation's effectiveness. Mental health problems and other stress-related disorders are recognised to be among the leading causes of early retirement from work, high absence rates, overall health impairment and low organizational productivity.

The Functional Instruction Manual, which describes the employment practices and employee relations policy set in Human Resources procedure guideline, ensures that HSBC Continental Europe effectively manages cases where employees demonstrate poor behaviours towards each other (Personal Conduct cases). Personal Conduct Cases are taken into account in the performance review for HSBC Continental Europe's employees. Once a year, a dashboard of Personal Conduct Cases and mitigation actions is presented to Board members during the Risk Committee.

Compliance is required with all applicable anti-bribery and corruption laws in all markets and jurisdictions in which HSBC Continental Europe operates. A global anti-bribery and corruption policy exists, which requires compliance with the spirit of laws and regulations to demonstrate commitment to ethical behaviours and conduct as part of environmental, social and corporate governance.

The controls below are operated to ensure compliance with labour laws and regulations and anti-discrimination rules. The Policy applies to all Businesses, Functions, Digital Business Services ('DBS') and HSBC Continental Europe geographies. The minimum control requirements set out in the policy and detailed in the Operational Risk Control Library specifically relate to the HR Function. However, all HSBC employees and other worker groups have responsibility to adhere to and enforce this policy.

The following Human Resources owned entity level controls ('ELCs') are used to support HSBC Continental Europe's internal control environment as per the Risk Management Framework and may reflect control activities, which if not managed could impact the conduct outcomes linked to customers and markets. See below for some of the controls in place:

- Employment practices and relations: complying with employment laws, regulations and commitments to workforce
- Conduct: managing poor behaviours and employee concerns
- Permissions to work: completeness of work permission records
- Employment law and regulatory developments: implementation of legislative or regulatory changes
- External reporting submissions: quality checks on external reporting submissions
- Employee representative bodies: inventory of agreements and authority to create binding agreements
- Material risk taker remuneration: completeness of MRT population and accuracy of remuneration delivered
- Working hours and overtime: completeness and accuracy of working hours and overtime records
- Employee concerns and complaints handling procedure: annual review to confirm it remains valid and authorisation of changes
- Employee investigations: closure accuracy and completeness checks
- Performance and reward sanctions: accurate capture of performance and reward adjustments aligned to the conduct and consequence management guidelines

Customer matters

Strategy and business processes

The conduct approach helps to focus on the impact HSBC Continental Europe has on its customers and financial markets. It focuses on five clear outcomes:

- understanding customers' needs,
- providing products and services that offer a fair exchange of value,
- serving customers' ongoing needs, and put it right in case of mistake,
- acting with integrity in the financial markets HSBC Continental Europe operates in,
- operating with resilience and security to avoid harm to customers and markets.

The conduct approach is embedded into the way HSBC Continental Europe develops, distributes, structures and executes products and services. The approach to product design and development – including how products are advertised – is set out in HSBC Continental Europe policies and provides a clear basis from which strategic product and service decisions can be made. Global businesses each take the following approach:

- carrying out robust testing during the design and development of a product to help ensure there is an identifiable need in the market,
- considering the complexity of products and the possible financial risks to customers when determining the target market,
- offering a carefully selected range of products that are managed through product inventories, helping to ensure they continue to meet customers' needs and continue to deliver a fair exchange of value,

- disconnecting variable pay of Relationship Managers from the volume of customers' sales,
- regularly reviewing products to help ensure they remain relevant and perform in line with expectations set,
- where products do not meet customers' needs or no longer meet high standards, improvements are made or they are withdrawn from sale,
- wherever possible, acting on feedback from customers to provide better and more accessible products and services,
- considering impact on the integrity of markets when introducing new products.

The strategy to support customers with enhanced care needs continues to be a core focus. Guidelines and procedures have been developed to ensure that the right outcomes are provided for customers who may require enhanced care. A number of improvements have been made to products, services, governance and oversight, as well as developed employees' skills and capabilities. To support this approach, post-sale controls and calls are performed with a sample of customers to ensure that needs have been fairly identified and supported.

Governance

Oversight of product design and sales is provided by governance committees chaired and attended by senior executives who are accountable for ensuring that risks are managed appropriately, and within appetite, to ensure fair customer outcomes. All markets businesses continue to focus on the development of HSBC's ESG product suite across all asset classes, ensuring that the position as an innovator of ESG products is maintained, and remain committed to helping mitigate against greenwashing risks.

Policies and risk management

Customers' interests are at the heart of HSBC Continental Europe's business, and policies and procedures are in place that set the standards required to protect them. These include:

- providing information on products and services that is clear, fair and not misleading,
- enabling customers to understand the key features, the risks, exclusions and limitations for all products and services including ESG-related products,
- enabling customers to make informed decisions before purchasing a product or service,
- checking that customers are offered appropriate products and, where relevant, received the right advice.

For example, in WPB, customers' financial needs and personal circumstances are considered to offer suitable product recommendations. This is achieved through measures such as:

- a globally consistent risk rating methodology for investment products, which is customised for local regulatory requirements; and
- a thorough customer risk profiling methodology to assess customers' financial objectives, attitudes towards risk, financial ability to bear investment risk, and knowledge and experience.

In addition, sales quality and mystery shopping reviews assess whether customers receive a fair outcome.

In CMB, focused sales outcome testing is operated to ensure that product features and pricing are correctly explained.

In Global Banking and Markets' ('GBM') markets business, sample-based testing on sales of products are undertaken to ensure that product features and pricing have been correctly explained and sales processes have been adhered to. Feedback is collated centrally and acted upon in a timely manner.

The net promoter score ('NPS') system is used to provide a consistent measure of the performance. NPS is measured by subtracting the percentage of Detractors from the percentage of Promoters. Customer feedback is managed when things go wrong and actions against key customer complaints are reported.

Tracking, recording and complaints management aim to be open and consistent. A consistent set of principles enables HSBC Continental Europe to remain customer focused throughout the complaints process. As an example, HSBC Continental Europe has adapted quickly to support customers facing new challenges and new ways of working. In addition, studies are run that allow HSBC Continental Europe to benchmark the performance on customer satisfaction against other banks.

Community and society

The Group has a long-standing commitment to support the communities in which it operates through charitable partnerships and volunteering opportunities. The HSBC Group aims to provide people with the skills and knowledge needed to thrive in the post pandemic environment, and through the transition to a sustainable future.

HSBC Continental Europe supports several organisations thanks to charitable donations programs.

The selection of charitable partnerships is carefully processed with due diligence to ensure that HSBC Continental Europe does not support wrong doers.

Examples of HSBC Continental Europe's engagement with communities in 2022 included:

- Article 1 and Association pour le Développement de l'Egalité des Chances, which encourage and support young people into further education and improve their chances in the labour market. In France 79 employees provided support to talented young people thanks to these programs aligned with the Future Skills strategy.
- With Article 1, HSBC Continental Europe in France offered training to 127 HSBC interns to develop and enhance their soft skills.
- Adie to increase employability among unprivileged communities thanks to entrepreneurship;
- Crésus to develop financial capability and support people in situations of financial fragility. In 2022, more than 20000 people benefited from the help of Crésus thanks to HSBC Continental Europe's support. 22 HSBC employees have been trained in the Dilemma financial education programme to run workshops with young people (14 to 21 years old) in particular. Finally, the "Springboard for the Future" programme supported by the Group, was deployed in the *Hauts de France* region. The goal is to give underprivileged young people the keys to better financial integration.

HSBC Continental Europe has supported initiatives in several countries to support Ukrainian refugees:

- In Czech Republic: charitable giving to a non-governmental organisation ('NGO') People in Need, collection of goods by employees
- In Belgium: collection of goods by employees and volunteering
- In Ireland, Italy, Spain: local charitable giving to support NGOs

HSBC Continental Europe also directly supported the community through a contribution with the Disaster relief fund in 2022 (Ukrainian refugees).

Qualitative information on Governance risk

The information in this section describes the governance in place relating to HSBC Continental Europe's counterparties, as opposed to its own internal governance. HSBC Continental Europe manages this risk through its management of reputational risk and financial crime risk.

Reputational risk

The Group Reputational Risk Committee oversees global executive support for identification, management and ongoing monitoring of reputational risks, including those related to ESG matters. The responsibility is held by the Group Chief Risk and Compliance Officer.

The Sustainability Risk Oversight Forum, made up of senior members of the Global Risk and Compliance function and global businesses, continued to oversee the development and implementation of policies that identify, manage and mitigate the Group's sustainability risk, including an assurance framework. This framework has been designed to take a more holistic view of the ESG risks faced in HSBC sustainability risk policies, including:

- monitoring ESG news across the sustainability risk policies;
- overseeing clients considered to be of higher risk or under exit;
- reviewing client files across the sustainability risk policies and;
- setting and reporting against a defined set of key control indicators aligned to HSBC's risk appetite.

The framework is used to monitor the in-scope portfolio and keep track if there is any deterioration in the risk ratings. With the respective risk rating assigned, sustainability risk specialists will take the necessary actions to mitigate unacceptable risks. If necessary, client relationship can be proactively ended.

At HSBC Continental Europe level, Reputational Risk & Client Selection Committees ('RRCSC') are regular committees, established to provide recommendations and advice on clients and non-clients (e.g. third parties) with a focus on wider reputational risks for both Commercial Banking ('CMB'), Global Banking & Markets ('GBM') and Retail and Wealth. Cases with significant impact are escalated to the regional/Global equivalent of this committee i.e. the HSBC Bank plc Regional/ Global RRCSC – and to the HSBC Continental Europe Risk Management Meeting ('RMM') if required.

Within the Global Risk and Compliance function, reputational and sustainability risk specialists are responsible for reviewing, implementing and managing sustainability risk policies. At HSBC Continental Europe, sustainability risk managers support the implementation of these policies. Local sustainability risk managers continued to be supported by regional reputational risk managers across the Group who have taken on additional oversight responsibilities for sustainability risk.

Financial crime risk

Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. HSBC Continental Europe aligns to the Groups and have a financial crime risk management framework that is applicable across all global businesses. The financial crime risk framework, which is overseen by the Group Board, is supported by financial crime policies that are designed to enable adherence to applicable laws and regulations.

Annual mandatory training is provided to all employees, with additional targeted training tailored to certain individuals. Regular risk assessments are carried out, to identify where a response is needed to evolving financial crime threats, as well as monitoring and testing the financial crime risk management programme

Anti-bribery and corruption policy states that all activity must be: conducted without intent to bribe or corrupt; reasonable and transparent; considered to not be lavish nor disproportionate to the professional relationship; appropriately documented with business rationale; and authorised at an appropriate level of seniority

The HSBC Group global anti-bribery and corruption policy requires that all activity must be: conducted without intent to bribe or corrupt; reasonable and transparent; considered to not be lavish nor disproportionate to the professional relationship; appropriately documented with business rationale; and authorised at an appropriate level of seniority. The global anti-bribery and corruption policy requires that the risk of customers and third parties committing bribery or corruption is identified and mitigated. Among other controls, the customer due diligence and transaction monitoring is used to identify and help mitigate the risk that the customers are involved in bribery or corruption. Anti-bribery and corruption risk assessments are performed third parties that expose HSBC to this risk.

Scope of ESG reporting

The information reported in Tables 35 to 39 below relates to the principal operating entities within HSBC Continental Europe's prudential scope of consolidation, including HSBC Continental Europe's branch in Germany and HSBC Bank Malta p.l.c. at 30 June 2023. Subsidiaries engaged in insurance activities are excluded from the prudential consolidation. Within this scope, due to operational limitations, entities have been selected on the basis of their relative exposure to achieve overall material disclosure coverage at HSBC Continental Europe level. Consequently, the exposures of HSBC Continental Europe's asset management subsidiaries and other European branches are not included in the tables below. These tables provide information on non-trading book exposures; assets held for trading or held for sale are excluded.

Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity

In accordance with Article 449a of CRR, HSBC Continental Europe has disclosed those exposures which are more exposed to risks from the transition to a low-carbon and climate resilient economy as specified in Recital 6 of the Commission Delegated Regulation (EU) 2020/1818; and a subtotal for exposures to 'other sectors' not mentioned therein.

The table sets out information on HSBC Continental Europe exposures to non-financial corporates operating in carbon-related sectors, and the quality of those exposures, including non-performing status, stage 2 classification, and related provisions, as well as maturity buckets. Counterparty sector allocation is based on the nature of the immediate counterparty.

Identification of companies excluded from Paris aligned benchmark

HSBC Continental Europe is required to report the gross carrying amount of exposures to counterparties that are excluded from the EU Paris-aligned Benchmarks as specified in Article 12.1, points (d) to (g), and Article 12.2 of Commission Delegated Regulation (EU) 2020/1818.

Counterparties are excluded based upon the criteria listed in Articles 12.1 and 12.2 of the Climate Benchmark Standards Regulation. The relevant articles and approach are set out below:

Approach to article 12.1

#12.1 Administrators of EU Paris-aligned Benchmarks shall exclude all of the following companies from those benchmarks:

(d) companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;

(e) companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;

(f) companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;

(g) companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.

To identify companies under criteria (d) to (f), an external data source, Urgewald, has been used. Urgewald is a non-profit environmental and human rights organisation, which tracks and reports on corporates engaging in Coal and Oil & Gas. Counterparties have been reported against the two following lists: Global Coal Exit List ('GCEL'); Global Oil & Gas Exit List ('GOGEL').

A two-step approach has been used to identify companies under criterion (g): i) a sector analysis to identify companies allocated to the electricity generation sector based on NACE code, and; ii) companies which declare their activities as fully renewable were removed from the list, based on publically available third-party data. The remaining population is reported in the relevant column of the table.

Approach to article 12.2

#12.2 Administrators of EU Paris-aligned Benchmarks shall exclude from those benchmarks any companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council (8), in accordance with the rules on estimations laid down in Article 13(2) of this Regulation.

HSBC Continental Europe will not be able to take into account the environmental objectives when identifying companies excluded from the Paris-aligned benchmarks until this information is reported by our counterparties. The majority of our counterparties have reported taxonomy alignment against the two climate objectives and are expected to report taxonomy alignment against the four remaining environmental objectives by year-end 2023.

Identification of clients excluded from the EU Paris-Benchmark is done on a best-efforts basis based on available third-party data or relevant sector classification. The coverage of available information on counterparty exposures is expected to improve over time and could result in further counterparties being identified as excluded.

Identification of environmentally sustainable exposures (CCM)

In accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Continental Europe is only expected to disclose information from 31 December 2023.

GHG financed emissions

The disclosure requirement for information on GHG financed emissions is voluntary in the first year of reporting. HSBC Continental Europe does not currently disclose GHG financed emissions split by sector. HSBC Continental Europe's plans to implement methodologies to disclose financed emissions will evolve, with regular reassessment of methodology and necessary data to take account of new and upcoming regulatory requirements and climate science.

The HSBC Group announced in October 2020 its ambition to become a net zero bank, including an aim to align its financed emissions to net zero by 2050 or sooner. In May 2021, shareholders approved a climate change resolution at the Annual General Meeting ('AGM') that commits to set, disclose and implement a strategy with short- and medium-term targets to align provision of finance with the goals and timelines of the Paris Agreement.

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

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

The HSBC Group is using the Net Zero Emissions ('NZE') by 2050 scenario provided by the International Energy Agency ('IEA') as a single-scenario reference benchmark to assess its financed emissions. It provides industry specific emissions projections from which HSBC constructs benchmark pathways. These benchmarks help the HSBC Group set targets that align the provision and facilitation of finance with the goals and timelines of the Paris Agreement at a portfolio level globally.

The HSBC Group have set interim 2030 targets for on-balance sheet financed emissions for eight sectors. These include six sectors for which HSBC Group have reported 2019 and 2020 emissions: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; and automotive. The HSBC Group focused its analysis on the sectors that are most material in terms of emissions, and those where HSBC believes engagement and climate action have the greatest potential to effect change.

HSBC Continental Europe's total exposure to non-financial corporates stands at EUR 29.5 billion at 30th June 2023, broadly in line with December 2022.

Exposure to companies excluded from Paris-aligned Benchmarks stands at €1,645 million (compared to €1,429 million at December 2022). Due to evolving methodologies and data quality improvements since December 2022, several counterparties not previously identified have been reported in the column 'exposures to companies excluded from EU Paris-aligned Benchmarks' under their respective categories, with a total additional exposure of €849 in June 2023 (€844m in December 2022) further detail is set out below.

- A number of additional counterparties have been identified as a result of improvements in methodology and data sourcing with the exposure of €804m in June 2023 (€799 in December 2022).
- In addition a counterparty which was reported in D.35.2 – Manufacture of gas; distribution of gaseous fuels through mains, has been correctly reclassified to D.35.1 – Electric power generation, transmission and distribution with an exposure of €45m in June 2023 (€45m in December 2022) and this item is therefore now captured in the EU Paris-aligned benchmark column.

In addition a counterparty previously reported under category C.32 – Other manufacturing, has now been correctly reclassified under category B.06 – Extraction of crude petroleum and natural gas with the exposure of €70m in June 2023 (€180m in December 2022).

Prior period comparatives have been restated for these amendments.

HSBC Continental Europe (excluding HSBC Malta p.l.c. and HSBC Continental Europe S.A., Germany) reports information related to on-balance sheet financed emissions as part of its Déclaration de Performance Extra Financière ('DPEF') disclosure.

For further details of HSBC Continental Europe's approach please see its DPEF disclosure as at December 2022.

For the purpose of disclosures in accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Continental Europe will continue to engage with industry initiatives to formulate a methodology for assessing and measuring financed emissions and to align with Article 449a of CRR.

Table 35: Banking book – climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1)

30 Jun 2023	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
		of which: exposures to companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation[1]	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
Sector/Subsector	€m	*€m*	*€m*	*€m*	€m	*€m*	*€m*	€m	€m	€m	€m	years
Exposures to sectors that highly contribute to climate change*	16,478	1,482	2,718	720	(247)	(28)	(205)	14,211	1,690	574	3	2.8
A – Agriculture, forestry and fishing	102	—	—	29	(8)	—	(8)	97	3	2	—	2.4
B – Mining and quarrying	393	289	9	179	—	—	—	209	184	—	—	5.2
B.05 – Mining of coal and lignite	—	—	—	—	—	—	—	—	—	—	—	—
B.06 – Extraction of crude petroleum and natural gas	351	289	9	179	—	—	—	171	180	—	—	5.5
B.07 – Mining of metal ores	—	—	—	—	—	—	—	—	—	—	—	0.0
B.08 – Other mining and quarrying	42	—	—	—	—	—	—	38	4	—	—	2.8
B.09 – Mining support service activities	—	—	—	—	—	—	—	—	—	—	—	0.0
C – Manufacturing	5,100	235	515	203	(63)	(6)	(54)	4,829	255	16	—	2.3
C.10 – Manufacture of food products	567	—	40	9	(7)	—	(7)	563	1	3	—	2.2
C.11 – Manufacture of beverages	63	—	13	1	—	—	—	50	7	6	—	3.1
C.12 – Manufacture of tobacco products	156	—	—	—	—	—	—	156	—	—	—	4.0
C.13 – Manufacture of textiles	110	—	13	13	(4)	—	(4)	70	40	—	—	4.6
C.14 – Manufacture of wearing apparel	47	—	4	21	(6)	—	(6)	46	1	—	—	1.6
C.15 – Manufacture of leather and related products	28	—	—	2	(1)	—	(1)	28	—	—	—	2.2
C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	36	—	20	2	(2)	—	(2)	36	—	—	—	3.1
C.17 – Manufacture of pulp, paper and paperboard	29	—	5	—	—	—	—	23	6	—	—	2.3
C.18 – Printing and service activities related to printing	56	—	3	4	(1)	—	(1)	54	2	—	—	3.2
C.19 – Manufacture of coke oven products	1	—	—	—	—	—	—	1	—	—	—	0.2
C.20 – Production of chemicals	706	—	64	1	(1)	—	(1)	697	9	—	—	1.7
C.21 – Manufacture of pharmaceutical preparations	253	—	—	—	—	—	—	213	40	—	—	4.2
C.22 – Manufacture of rubber products	206	1	19	2	(2)	—	(1)	193	13	—	—	2.7
C.23 – Manufacture of other non-metallic mineral products	232	—	3	6	(2)	—	(2)	219	10	3	—	2.6
C.24 – Manufacture of basic metals	251	—	8	4	(1)	—	—	246	5	—	—	1.2

Table 35: Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
		of which: exposures to companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation[1]	*of which: stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*		*of which: Stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weigh-ted matur-ity
Sector/Subsector	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	years
C.25 – Manufacture of fabricated metal products, except machinery and equipment	262	1	14	29	(8)	—	(8)	226	35	1	—	2.2
C.26 – Manufacture of computer, electronic and optical products	314	—	26	15	(1)	(1)	—	313	1	—	—	1.6
C.27 – Manufacture of electrical equipment	414	229	3	19	(5)	—	(4)	414	—	—	—	1.3
C.28 – Manufacture of machinery and equipment n.e.c.	582	—	141	38	(15)	(3)	(12)	574	8	—	—	2.2
C.29 – Manufacture of motor vehicles, trailers and semi-trailers	180	—	8	3	(1)	—	(1)	180	—	—	—	1.6
C.30 – Manufacture of other transport equipment	315	—	130	25	(4)	(2)	(2)	247	68	—	—	3.9
C.31 – Manufacture of furniture	66	—	—	2	(1)	—	(1)	55	8	3	—	2.8
C.32 – Other manufacturing	226	4	1	7	(1)	—	(1)	225	1	—	—	0.8
C.33 – Repair and installation of machinery and equipment	—	—	—	—	—	—	—	—	—	—	—	0.0
D – Electricity, gas, steam and air conditioning supply	573	505	12	—	—	—	—	446	32	95	—	4.6
D35.1 – Electric power generation, transmission and distribution	492	439	8	—	—	—	—	418	31	43	—	3.8
D35.11 – Production of electricity	78	66	2	—	—	—	—	27	—	51	—	9.5
D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	3	—	2	—	—	—	—	1	1	1	—	2.9
D35.3 – Steam and air conditioning supply	—	—	—	—	—	—	—	—	—	—	—	0.0
E – Water supply; sewerage, waste management and remediation activities	40	—	1	—	—	—	—	40	—	—	—	3.4
F - Construction	398	1	71	18	(14)	(1)	(13)	391	3	4	—	2.3
F.41 – Construction of buildings	381	1	69	17	(13)	(1)	(12)	374	3	4	—	2.4
F.42 – Civil engineering	9	—	2	—	—	—	—	9	—	—	—	1.2
F.43 – Specialised construction activities	8	—	—	1	(1)	—	(1)	8	—	—	—	0.7
G – Wholesale and retail trade; repair of motor vehicles and motorcycles	3,515	334	488	166	(109)	(6)	(101)	3,438	72	5	—	1.5
H – Transportation and storage	2,042	118	1,003	11	(14)	(8)	(5)	1,441	405	196	—	4.0

Table 35: Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
		of which: exposures to companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation[1]	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
Sector/Subsector	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**years**
H.49 – Land transport and transport via pipelines	296	115	*5*	*6*	(2)	—	*(2)*	271	24	1	—	2.1
H.50 – Water transport	1,062	—	*959*	—	(9)	*(8)*	—	585	284	193	—	5.3
H.51 – Air transport	306	—	*1*	—	—	—	—	239	67	—	—	2.9
H.52 – Warehousing and support activities for transportation	378	3	*38*	*5*	(3)	—	*(3)*	346	30	2	—	2.5
H.53 – Postal and courier activities	—	—	—	—	—	—	—	—	—	—	—	0.0
I – Accommodation and food service activities	436	—	*90*	*50*	(14)	*(2)*	*(11)*	408	19	9	—	3.0
L – Real estate activities	3,879	—	*529*	*64*	(25)	*(5)*	*(13)*	2,912	717	247	3	3.5
Exposures to other sectors*	12,981	163	*1,298*	*788*	(394)	*(22)*	*(351)*	11,860	942	74	105	2.5
K – Financial and insurance activities	52	—	*6*	*6*	(2)	—	—	45	4	3	—	3.1
Exposures to other sectors (NACE codes J, M – U)	12,929	163	*1,292*	*782*	(392)	*(22)*	*(351)*	11,815	938	71	105	2.5
TOTAL	29,459	1,645	*4,016*	*1,508*	(641)	*(50)*	*(556)*	26,071	2,632	648	108	2.6

* *In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks – Climate Benchmark Standards Regulation – Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.*

1 *A number of additional counterparties have been identified as a result of improvements in methodology and data sourcing with the exposure of €804m in June 2023 (€799 in December 2022). In addition a counterparty which was reported in D.35.2 – Manufacture of gas; distribution of gaseous fuels through mains, has been correctly reclassified to D.35.1 – Electric power generation, transmission and distribution with an exposure of €45m in June 2023 (€45m in December 2022) and this item is therefore now captured in the EU Paris-aligned benchmark column. In addition a counterparty previously reported under category C.32 – Other manufacturing, has now been correctly reclassified under category B.06 – Extraction of crude petroleum and natural gas with the exposure of €70m in June 2023 (€180m in December 2022). Prior period comparatives have been restated for these amendments.*

Table 35: Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

31 Dec 2022	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
		of which: exposures to companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation[1]	*of which: stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*		*of which: Stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
Sector/Subsector	€m	*€m*	*€m*	*€m*	€m	*€m*	*€m*	€m	€m	€m	€m	years
Exposures to sectors that highly contribute to climate change*	16,360	*1,275*	*3,415*	*735*	(276)	*(35)*	*(229)*	13,950	1,607	801	2	2.9
A – Agriculture, forestry and fishing	93	—	*1*	*29*	(12)	—	*(12)*	90	2	1	—	2.7
B – Mining and quarrying	503	*363*	*182*	*184*	—	—	—	320	—	183	—	4.1
B.05 – Mining of coal and lignite	—	—	—	—	—	—	—	—	—	—	—	—
B.06 – Extraction of crude petroleum and natural gas	473	*363*	*180*	*184*	—	—	—	290	—	183	—	4.3
B.07 – Mining of metal ores	—	—	—	—	—	—	—	—	—	—	—	
B.08 – Other mining and quarrying	30	—	*2*	—	—	—	—	30	—	—	—	2.1
B.09 – Mining support service activities	—	—	—	—	—	—	—	—	—	—	—	
C – Manufacturing	5,091	*7*	*817*	*208*	(66)	*(6)*	*(55)*	4,769	254	66	2	2.4
C.10 – Manufacture of food products	535	—	*46*	*9*	(7)	—	*(7)*	530	3	2	—	2.2
C.11 – Manufacture of beverages	52	—	*16*	*1*	(1)	—	*(1)*	45	—	7	—	3.4
C.12 – Manufacture of tobacco products	285	—	—	—	—	—	—	285	—	—	—	3.4
C.13 – Manufacture of textiles	115	—	*18*	*14*	(6)	—	*(6)*	73	42	—	—	5.1
C.14 – Manufacture of wearing apparel	37	—	*6*	*16*	(6)	—	*(6)*	36	1	—	—	2.3
C.15 – Manufacture of leather and related products	30	—	*17*	*2*	(1)	—	*(1)*	29	1	—	—	2.5
C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	29	—	*16*	*2*	(2)	—	*(2)*	28	1	—	—	3.4
C.17 – Manufacture of pulp, paper and paperboard	32	—	*1*	—	—	—	—	32	—	—	—	2.1
C.18 – Printing and service activities related to printing	75	—	*6*	*3*	(2)	—	*(1)*	74	1	—	—	3.8
C.19 – Manufacture of coke oven products	—	—	—	—	—	—	—	—	—	—	—	—
C.20 – Production of chemicals	571	—	*36*	*21*	(2)	—	*(1)*	542	29	—	—	1.9
C.21 – Manufacture of pharmaceutical preparations	253	—	—	—	—	—	—	210	43	—	—	4.4
C.22 – Manufacture of rubber products	249	*1*	*22*	*2*	(2)	*(1)*	*(1)*	236	13	—	—	2.8
C.23 – Manufacture of other non-metallic mineral products	197	—	*8*	*6*	(3)	—	*(3)*	187	8	2	—	2.5
C.24 – Manufacture of basic metals	235	—	*8*	*3*	(1)	—	—	228	7	—	—	1.0

Table 35: Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
31 Dec 2022		*of which: exposures to companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation*[1]	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
Sector/Subsector	€m	*€m*	*€m*	*€m*	€m	*€m*	*€m*	€m	€m	€m	€m	years
C.25 – Manufacture of fabricated metal products, except machinery and equipment	228	*1*	*14*	*47*	(8)	—	*(7)*	186	41	1	—	2.8
C.26 – Manufacture of computer, electronic and optical products	276	—	*31*	*3*	(1)	—	*(1)*	276	—	—	—	1.9
C.27 – Manufacture of electrical equipment	215	*1*	*7*	*19*	(6)	—	*(5)*	214	1	—	—	2.7
C.28 – Manufacture of machinery and equipment n.e.c.	591	—	*159*	*24*	(11)	*(3)*	*(7)*	567	24	—	—	1.9
C.29 – Manufacture of motor vehicles, trailers and semi-trailers	194	—	*12*	*3*	(1)	—	*(1)*	194	—	—	—	1.1
C.30 – Manufacture of other transport equipment	558	—	*375*	*25*	(3)	*(1)*	*(2)*	485	21	52	—	2.9
C.31 – Manufacture of furniture	67	—	*3*	*2*	(2)	—	*(2)*	64	1	2	—	2.6
C.32 – Other manufacturing	267	*4*	*16*	*6*	(1)	*(1)*	*(1)*	248	17	—	2	1.5
C.33 – Repair and installation of machinery and equipment	—	—	—	—	—	—	—	—	—	—	—	0.7
D – Electricity, gas, steam and air conditioning supply	462	*453*	*128*	—	—	—	—	334	31	97	—	4.7
D35.1 – Electric power generation, transmission and distribution	409	*403*	*124*	—	—	—	—	329	31	49	—	3.6
D35.11 – Production of electricity	50	*50*	*2*	—	—	—	—	2	—	48	—	13.8
D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	3	—	*2*	—	—	—	—	3	—	—	—	10.1
D35.3 – Steam and air conditioning supply	—	—	—	—	—	—	—	—	—	—	—	—
E – Water supply; sewerage, waste management and remediation activities	28	—	—	—	—	—	—	28	—	—	—	2.6
F - Construction	344	*1*	*21*	*19*	(14)	—	*(13)*	336	3	5	—	2.6
F.41 – Construction of buildings	328	*1*	*20*	*18*	(13)	—	*(12)*	320	3	5	—	2.7
F.42 – Civil engineering	10	—	—	—	—	—	—	10	—	—	—	1.6
F.43 – Specialised construction activities	6	—	*1*	*1*	(1)	—	*(1)*	6	—	—	—	1.4
G – Wholesale and retail trade; repair of motor vehicles and motorcycles	3,494	*333*	*502*	*168*	(124)	*(3)*	*(118)*	3,403	80	11	—	1.7
H – Transportation and storage	1,997	*118*	*1,041*	*11*	(16)	*(11)*	*(6)*	1,367	427	203	—	4.2
H.49 – Land transport and transport via pipelines	230	*115*	*10*	*6*	(3)	—	*(3)*	206	17	7	—	1.9
H.50 – Water transport	1,140	—	*964*	—	(9)	*(10)*	—	628	322	190	—	5.3
H.51 – Air transport	308	—	*1*	—	—	—	—	227	81	—	—	3.4

Table 35: Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
31 Dec 2022		*of which: exposures to companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation*[1]	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
Sector/Subsector	€m	*€m*	*€m*	*€m*	€m	*€m*	*€m*	€m	€m	€m	€m	years
H.52 – Warehousing and support activities for transportation	319	*3*	*66*	*5*	(4)	*(1)*	*(3)*	306	7	6	—	2.8
H.53 – Postal and courier activities	—	—	—	—	—	—	—	—	—	—	—	—
I – Accommodation and food service activities	453	—	*142*	*52*	(17)	*(4)*	*(12)*	393	58	2	—	3.4
L – Real estate activities	3,895	*1*	*581*	*64*	(27)	*(11)*	*(13)*	2,910	752	233	—	3.5
Exposures to other sectors*	13,118	*154*	*1,839*	*701*	(408)	*(49)*	*(349)*	11,969	946	73	130	2.7
K – Financial and insurance activities	—	—	—	—	—	—	—	—	—	—	—	
Exposures to other sectors (NACE codes J, M – U)	13,118	*154*	*1,839*	*701*	(408)	*(49)*	*(349)*	11,969	946	73	130	2.7
TOTAL	29,478	*1,429*	*5,254*	*1,436*	(684)	*(84)*	*(578)*	25,919	2,553	874	132	2.7

1 *A number of additional counterparties have been identified as a result of improvements in methodology and data sourcing with the exposure of €804m in June 2023 (€799 in December 2022). In addition a counterparty which was reported in D.35.2 – Manufacture of gas; distribution of gaseous fuels through mains, has been correctly reclassified to D.35.1 – Electric power generation, transmission and distribution with an exposure of €45m in June 2023 (€45m in December 2022) and this item is therefore now captured in the EU Paris-aligned benchmark column. In addition a counterparty previously reported under category C.32 – Other manufacturing, has now been correctly reclassified under category B.06 – Extraction of crude petroleum and natural gas with the exposure of €70m in June 2023 (€180m in December 2022). Prior period comparatives have been restated for these amendments.*

Banking book – climate change transition risk: loans collateralised by immovable property – energy efficiency of collateral

This table presents the gross carrying amount[1] of loans collateralized with commercial and residential immovable property and of repossessed real estate collateral. The loans are presented in the template within the EU area based upon where the loan itself is booked, as a proxy for the location of the underlying collateral. The table also includes information on the level of energy efficiency of the underlying collateral measured in kWh/m^2 energy consumption and in terms of the label of the energy performance certificates ('EPC')[2] – where a mapping to the EU EPC label exists. In the absence of an EPC label, the energy consumption is estimated. This estimation methodology is set out below.

During the year, EPCs were requested from corporate and retail customers to enable reporting of the level of energy and the corresponding EPC labels, for both residential and commercial property collateral. The EPC label is not mandatory information in some countries. Where EPCs do not incorporate a specific label the level of energy consumption, for the score, has been estimated. For Germany, the average level of energy of collected EPCs has been used for each portfolio for estimating level of energy. For France and Malta, where estimation is required, the level of energy has been estimated using a few different methods according to the data availability. The majority is based on a mapping of property types with government statistics. In this context, for Malta the information published in the paper 'Long Term Renovation Strategy 2050', issued by Maltese Ministry for the environment-climate change and planning, has been leveraged while for French residential properties, information published in the paper 'The housing stock by level of energy category as of January 1 2022' issued by French Ministry of Ecological Transition, which provides average level of energy consumption, has been used. However, for French commercial properties, the ADEME (Agence De l'Environnement et de la Maîtrise de l'Energie) database named 'DPE Tertiaire depuis 2021', including EPCs established from July 2021, has been utilised to perform estimations on the level of energy consumption of commercial properties. The average level of energy consumption has been computed for each type of commercial asset (offices, education, restaurants, etc) to map and allocate them to the appropriate bucket of level of energy consumption.

1 As defined in Part 1 of Annex V of Commission Implementing Regulation (EU) 2021/451.

2 As defined in Article 2(12) of 2010/31/EU for EU countries, or in the relevant regulation for those exposures outside the EU. Energy Performance of Buildings Directive 2010/31/EU10 (EPBD) and the Energy Efficiency Directive 2012/27/EU promote policies that aim to achieve a highly energy efficient and decarbonised building stock by 2050. The EPBD introduced energy performance certificates (EPC) as instruments for improving the energy performance of buildings.

The methodology used for determining energy efficiency is primarily based on estimations and is mainly dependent on external sources (ADEME and Government Statistics). This approach has limitations. For example, it has been confirmed by ADEME that there was no consistency check to ensure that the energy consumption for commercial EPCs was correctly reported within the ADEME database. Since EPCs are not mandatory for commercial buildings in France, except when there is a sale of a new construction, some

EPCs are empty or report a very small level of energy (for example 0.1 kwh/m2/year), which may affect the computation of the average level of energy consumption used. Moreover, Maltese energy efficiency statistics are based on a reporting date of 2019 and energy level may have changed subsequently, for example where refurbishments have been made.

Of the total collateralised loans at 30th June 2023, €19.1bn relates to the France Retail banking book. The France retail operations were classified as held for sale as at 31 December 2022 and therefore were out of scope for year-end 2022. In 2023, the accounting classification has changed and the retail operations are now in scope and therefore included within this template. These exposures include mortgages and loans secured by credit lodgement guarantee. For retail exposures, the EPC ratings have been estimated/assessed via a third party, utilising address and property data against public and private EPC databases and, where necessary, proximity statistical analysis on the basis of EPCs nearby and at the same address. Mapping of client data to EPC data was assessed against a confidence index. Unless property data could be identified exactly within the EPCs, energy levels are presented as estimated. Where no property data existed, energy levels were estimated based on the average level of energy of collected EPCs.

The EBA periodically releases Q&As which clarify the requirements of the regulation. An ongoing review of this additional guidance is undertaken to ensure compliance. As a result of this, the presentation of some columns in the table have been amended. Specifically, the column ‘Without EPC label of collateral’ now presents the exposure rather than percentage of exposures without EPC label, and the column ‘Of which level of energy efficiency estimated’ presents the percentage, rather than amount, of exposures without EPC label where the energy level has been estimated. This change in presentation has been reflected in the prior period table.

HSBC Continental Europe aims to continue to engage with business customers for the information needed and seeks to refine its methodology to align with the requirements.

Table 36: Banking book – climate change transition risk: Loans collateralised by immovable property – Energy efficiency of collateral (Template 2)

		Total gross carrying amount															
			Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral)							label of collateral	
			0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		of which: level of energy efficiency (EP score in kWh/m² of collateral) estimated
	30 Jun 2023	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**%**
	Counterparty sector																
1	**Total EU area**	**25,641**	**2,308**	**6,298**	**14,881**	**1,482**	**332**	**340**	**416**	**327**	**842**	**1,541**	**781**	**260**	**67**	**21,407**	**100**
2	– *of which: Loans collateralised by commercial immovable property*	***4,004***	***655***	***883***	***1,571***	***455***	***102***	***338***	***333***	***154***	***162***	***91***	***54***	***61***	***18***	***3,131***	**100**
3	– *of which: Loans collateralised by residential immovable property*	***21,634***	***1,653***	***5,414***	***13,310***	***1,027***	***230***	—	***83***	***173***	***680***	***1,450***	***727***	***199***	***49***	***18,273***	**100**
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	***3***	—	***1***	—	—	—	***2***	—	—	—	—	—	—	—	***3***	**100**
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	***21,451***	***1,604***	***5,294***	***12,769***	***1,260***	***240***	***284***	—	—	—	—	—	—	—	***21,407***	**100**
6	**Total non-EU area**																
7	– *of which: Loans collateralised by commercial immovable property*																
8	– *of which: Loans collateralised by residential immovable property*																
9	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*																
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*																
	31 Dec 2022																
1	Total EU area	6,369	740	2,526	2,183	484	101	336	330	106	186	74	49	62	18	5,543	100
2	– *of which: Loans collateralised by commercial immovable property*	*3,909*	*703*	*414*	*1,873*	*484*	*101*	*334*	*330*	*91*	*186*	*52*	*49*	*62*	*18*	3,120	100
3	– *of which: Loans collateralised by residential immovable property*	*2,457*	*36*	*2,110*	*310*	—	—	—	—	*15*	—	*22*	—	—	—	2,420	100
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	*3*	—	*1*	—	—	—	*2*	—	—	—	—	—	—	—	3	100
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	*5,543*	*346*	*2,251*	*2,149*	*461*	*58*	*278*								5,543	100
6	Total non-EU area	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
7	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	—	—	—	—	—	—	—								—	—

Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms

This table provides information on exposures to the top 20 most carbon-intensive firms in the world by comparing the corporate counterparties of the operating entities in the loan book against a list of top 20 most carbon-intensive firms, compiled using data from reports of the Climate Accountability Institute ('CAI'). The disclosure seeks to include exposures to any company that belongs to the group of any of the top 20 emitters. The top 20 Carbon emitters have been identified using the CAI's Carbon Majors 2018 data set, specifically the 'TopTwenty CO2e 2018' table.

The gross carrying amount of exposure to the top 20 carbon emitting companies is given as a proportion of the total gross carrying amount of exposures in the banking book. The gross carrying amount includes loans and advances, debt securities and equity instruments, excluding financial assets held for trading and held for sale assets.

Following a review of the methodology adopted in identifying the top 20 carbon emitting companies, the primary data source has been amended for this disclosure from CDP (previously known as the Carbon Disclosure Project), used at year-ended 2022, to the CAI . Due to the voluntary nature of the CDP data, the data available from the CAI is thought to be a more complete dataset. This has resulted in different counterparties being identified as part of the top 20 carbon-intensive firms. The gross carrying amount is €319m as at June 2023, based on the CAI data. The December 2022 gross carrying amount would have been €286m on the same basis. The gross carrying amount reported as at December 2022 was €81m, based on the CDP data.

The methodology for determining exposures to the top 20 carbon-emitting companies is expected to evolve as data availability, industry guidance and market practice changes over time. We will seek to be transparent in our disclosures about the methodologies applied, but results may not be comparable year on year.

Table 37: Banking book – climate change transition risk: Exposures to top 20 carbon-intensive firms (Template 4)

Gross carrying amount €m (aggregate)	Gross carrying amount to the counterparties compared to total gross carrying amount as % (aggregate)[1]	*of which: environmentally sustainable (CCM)*[2]	Weighted average maturity in years	Number of top 20 polluting firms included
30 Jun 2023				
319	**0.29**	**—**	**0.04**	**4**
31 Dec 2022				
81	0.12	—	0.90	3

1 *For counterparties among the top 20 carbon emitting companies in the world.*
2 *In accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Continental Europe is only expected to disclose information from 31 December 2023.*

Banking book – Climate change physical risk: Exposures subject to physical risk

Scope

This table provides information on exposures subject to climate change physical risk (chronic and acute risks) and includes a sectoral breakdown of gross exposures to non-financial corporations and by geography of location of the activity of the counterparty or of the collateral. The loans are presented in the template by the geographical location based upon where the loan itself is booked, as a proxy for the location of the underlying collateral.

The exposures include loans and advances, debt securities and equity instruments other than those held for trading or for sale. In addition, loans secured by residential and commercial property and repossessed real estate, including exposures to both financial and non-financial counterparties, have been separately disclosed. Collateralised loans to non-financial counterparties are also included in the sectoral breakdown.

For those exposures identified as subject to climate change physical risk, the template provides further details on the type of physical risk (acute, chronic or both), the quality of those exposures, including non-performing status, stage 2 classification, related provisions and relevant maturity buckets. Those exposures identified as subject to both acute and chronic physical risk are required to be reported only in the combined column, covering both types of climate-related hazards.

As at December 2022, the retail portfolio in France was not part of template 5 disclosure as the portfolio was classified as 'held for sale'. In 2023, the classification has changed and the France retail portfolio is no longer classified as 'held for sale'. As a result the numbers in rows 10-12 are significantly higher driven by France Retail banking book and now include loans guaranteed by the Credit Logement framework in France. These loans are categorised as collateralised by residential immovable property as they are granted for home purchases and collateralised by residential real estate.

The counterparty sector classification disclosed in the template is aligned to the HBCE FINREP reporting. Due to evolving methodologies and data quality improvements since December 2022 reporting, a counterparty with balance of €70m (December 2022: €180m), reported under category C.32 – Other manufacturing during the year end 2022 has now been correctly reclassified under category B.06 – Extraction of crude petroleum and natural gas. This has been restated in the prior year comparative table.

Methodology

In accordance with Commission Implementing Regulation (EU) 2022/2453, the ThinkHazard! dedicated portal has been used as the data source to assess whether exposures are subject to climate change physical risk. Geographical locations have been mapped to physical risk data provided by the ThinkHazard! database. The ThinkHazard! timelines target the short-horizon period of 2025 to 2030.

ThinkHazard! is developed and maintained by the Global Facility for Disaster Reduction and Recovery. It provides a general view of hazards for a given location including climate-related (Floods, water scarcity, wildfire, extreme heat, cyclone, landslide) and geophysical (Volcano, tsunami, earthquake). The tool estimates the likelihood of these hazards affecting the selected area (very low, low, medium or high). The four hazard levels are derived from hazard maps, which present the spatial distribution of hazard intensity at a given frequency, or 'return period'. ThinkHazard! uses the return periods and damage intensity thresholds, the intensity above which damage would be expected to occur, to define the risk levels for each hazard. The hazard levels provided are based on published hazard data, provided by a range of private, academic and public organisations.

The geographical location in the ThinkHazard! database includes three levels of granularity for any given location: district, state, or country, with each having a defined risk profile.

Data limitations

For Corporate loans, the disclosure is dependent on the availability of location information for one of the following three things: the collateral securing the loans (where relevant), the counterparties activities, or the head office. If any one of these three locations was found to be subject to high physical risk, the exposure is considered as high physical risk in the table. Based on the available data, the geographical location of the collateral, or activity of the counterparty, or their head office location was mapped at the most granular district or state level where possible; country level mapping was only used as a last resort. In addition, for retail loans, residential addresses were also considered. Further, for cases where the counterparty's loan is backed by more than one collateral in the form of immovable property, the physical risk of each collateral has been assessed and the highest physical risk is reported against that contract. For the retail book while physical risk data was available for the majority of the exposures, the average physical risk calculated has been used for estimating the physical risk for the remaining exposures. Also, based on the available data, we calculated physical risk based on best available location of the exposure. For exposures in Malta, the physical risk impact data from the ThinkHazard! database was overlaid with local risk assessment based on the location of buildings in these localities.

The climate data from the ThinkHazard tool for France provides the maximum hazard level for a France department. As an example, 99% of French departments in the available dataset have an acute hazard rated as high and wildfire is the main contributor with 93% departments rated as high for this. As such, this conservative view contributes to the level of exposures reported as "sensitive to impact from acute climate change events". For context, the France retail portfolio is predominately located in more urban areas with approximately 70% situated in major cities and their surrounding neighbourhoods, where we would expect the risk of wildfire to be reduced. Overtime we intend to develop our methodology and apply a more comprehensive physical risk data assessment to allow for a refined view of the impact to the portfolio.

For €1.9bn (4%) of the total balance sheet amount in our 30 June 2023 reporting, we had limited or no data available to clearly identify the geographical location and assess the impact of the associated physical risk (compared to €2.6bn representing 8% in December 2022).

Availability and quality of data will evolve over time and may lead to differences in the data reported in future years.

Assumptions

In the absence of further guidance, the methodology adopted relies on a number of assumptions which may not be consistent with the approach adopted by other financial institutions and therefore lead to non-comparable results. These concern, for example, the following:

- The selection of acute and chronic risks;
- The inclusion of both climate and geophysical risks;
- The threshold for determining a location is subject to high physical risk.

In Article 18a of Commission Implementing Regulation (EU) 2021/637 on prudential disclosure of ESG risks in accordance with Article 449a CRR, physical risk is defined thus: 'As part of the overall environmental risk, the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of the physical effects of environmental factors on the institution's counterparties or invested assets'.

Based on this, HSBC considers both climate and geophysical hazards as meeting the definition of physical risk. Climate hazards are weather-related, hydro-meteorological events including floods, wildfire, cyclone, landslide, water scarcity and extreme heat. The geophysical hazards considered – earthquakes, tsunamis and volcanoes – originate from within the Earth and are not much influenced by climate variables or human actions.

Acute and chronic risks have been defined in accordance with European Bank for Reconstruction and Development ('EBRD') guidance produced for the Task Force on Climate-Related Financial Disclosures ('TCFD') in 2018, resulting in the following categorisation:

(a) Acute risks (event-driven risks that last for a few days) – extreme weather events such as storms and cyclones, extreme rainfall and heatwaves;

(b) Chronic risks (those due to longer-term shifts in climate patterns) – variability in precipitation, temperature, water stress and sea-level rise.

Acute risks refer to events or specific episodes that have the potential to inflict significant physical damage. The following climate and geophysical hazards are assumed to be acute: floods, wildfire, cyclone, landslide, earthquake, tsunami and volcanos.

Chronic risks are those that carry a range of physical impacts of considerably longer duration than those posed by acute risks. They are best understood as processes, not events. The following climate hazards are assumed to be chronic: water scarcity (dry ground) and extreme heat from sustained long-term increase in air temperature.

The ThinkHazard! tool rates each hazard for a given location as either very low, low, medium, high or returns no data. Our reporting in Template 5 is prepared on the following basis:

a. A climate risk rating of High is assumed to imply that all the assets in that location are sensitive to physical climate risk.

b. A combination of Medium and Low risks does not aggregate to a High Risk.

c. Exposure to any one or more High climate risk perils is sufficient to expose all assets in that district to High physical risk. This is a conservative but rational approach as, in most cases, a high risk level from a single hazard such as wildfire, landslide, cyclone, volcanoes or earthquake would be expected to impact fully the value of a physical asset. However, for some hazards, such as extreme heat, water scarcity and floods, generally full damage or destruction of the asset would not be expected.

It is expected that this methodology will evolve over time to align with changes in market practice and regulation.

Table 38: Banking book – climate change physical risk: Exposures subject to physical risk (Template 5)

	Variable: Geographical area subject to climate change physical risk – acute and chronic events	Gross carrying amount													
			of which exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	*of which: exposures sensitive to impact from chronic climate change events*	*of which: exposures sensitive to impact from acute climate change events*	*of which: exposures sensitive to impact both from chronic and acute climate change events*	*of which: Stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*
		€m	€m	€m	€m	€m	years	*€m*	*€m*	*€m*	*€m*	*€m*	€m	*€m*	*€m*
	30 Jun 2023														
	France														
1	A – Agriculture, forestry and fishing	**99**	**94**	**3**	**2**	**—**	**2.5**	***—***	***99***	***—***	***—***	***29***	**(8)**	***—***	***(8)***
2	B – Mining and quarrying[1]	**354**	**170**	**184**	**—**	**—**	**5.8**	***—***	***175***	***179***	***9***	***179***	**—**	***—***	***—***
3	C – Manufacturing	**2,940**	**2,726**	**122**	**8**	**—**	**2.4**	***—***	***2,755***	***101***	***367***	***156***	**(58)**	***(4)***	***(52)***
4	D – Electricity, gas, steam and air conditioning supply	**416**	**385**	**31**	**1**	**—**	**3.4**	***—***	***363***	***54***	***9***	***—***	**—**	***—***	***—***
5	E – Water supply; sewerage, waste management and remediation activities	**22**	**22**	**—**	**—**	**—**	**3.8**	***—***	***13***	***9***	***1***	***—***	**—**	***—***	***—***
6	F – Construction	**360**	**304**	**3**	**1**	**—**	**2.2**	***—***	***308***	***—***	***68***	***16***	**(12)**	***(1)***	***(11)***
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	**2,527**	**2,466**	**59**	**2**	**—**	**1.8**	***—***	***2,526***	***1***	***279***	***121***	**(88)**	***(2)***	***(85)***
8	H – Transportation and storage	**1,464**	**1,097**	**224**	**11**	**—**	**3.1**	***—***	***641***	***691***	***562***	***11***	**(7)**	***(2)***	***(5)***
9	L – Real estate activities	**3,562**	**2,606**	**663**	**239**	**3**	**3.5**	***—***	***3,511***	***—***	***494***	***34***	**(21)**	***(4)***	***(12)***
10	Loans collateralised by residential immovable property	**19,418**	**1,220**	**3,315**	**10,165**	**4,676**	**14.8**	***—***	***19,242***	***134***	***1,916***	***201***	**(65)**	***(6)***	***(58)***
11	Loans collateralised by commercial immovable property	**3,438**	**2,514**	**517**	**250**	**3**	**3.7**	***—***	***3,284***	***—***	***512***	***15***	**(10)**	***(5)***	***(2)***
12	Repossessed collateral	**—**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	***—***	***—***	**—**	***—***	***—***
13	**Other relevant sectors (breakdown below where relevant)**	**10,289**	**9,095**	**639**	**72**	**1**	**2.4**	***—***	***9,694***	***113***	***900***	***521***	**(278)**	***(15)***	***(243)***
14	I – Accommodation and food service activities	**370**	**323**	**13**	**8**	**—**	**3.0**	***—***	***344***	***—***	***57***	***30***	**(9)**	***(1)***	***(8)***
15	J – Information and communication	**891**	**826**	**34**	**14**	**—**	**2.0**	***—***	***855***	***19***	***125***	***9***	**(9)**	***(4)***	***(4)***
16	K - Financial and insurance activities	**—**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	***—***	***—***	**—**	***—***	***—***
17	M – Professional scientific and technical activities	**140**	**139**	**1**	**—**	**—**	**2.4**	***—***	***140***	***—***	***5***	***5***	**(1)**	***—***	***(1)***
18	N – Administrative and support service activities	**8,146**	**7,336**	**556**	**31**	**—**	**2.5**	***—***	***7,829***	***94***	***657***	***469***	**(253)**	***(8)***	***(226)***
19	O – Public administration and defence compulsory social security	**1**	**1**	**—**	**—**	**—**	**2.8**	***—***	***1***	***—***	***—***	***—***	**—**	***—***	***—***
20	P – Education	**12**	**11**	**1**	**—**	**—**	**2.5**	***—***	***12***	***—***	***1***	***—***	**—**	***—***	***—***
21	Q – Human health and social work activities	**104**	**78**	**26**	**—**	**—**	**4.0**	***—***	***104***	***—***	***7***	***2***	**(2)**	***—***	***(2)***
22	R – Arts, entertainment and recreation	**176**	**148**	**8**	**19**	**1**	**4.0**	***—***	***176***	***—***	***48***	***6***	**(4)**	***(2)***	***(2)***
23	S – Other service	**449**	**233**	**—**	**—**	**—**	**0.2**	***—***	***233***	***—***	***—***	***—***	**—**	***—***	***—***

Table 38: Banking book – climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	Variable: Geographical area subject to climate change physical risk – acute and chronic events	Gross carrying amount													
			of which exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	of which: exposures sensitive to impact from chronic climate change events	of which: exposures sensitive to impact from acute climate change events	of which: exposures sensitive to impact both from chronic and acute climate change events	of which: Stage 2 exposures	of which: non-performing exposures		of which: Stage 2 exposures	of which: non-performing exposures
		€m	€m	€m	€m	€m	years	€m	€m	€m	€m	€m	€m	€m	€m
	Other geographical														
1	A – Agriculture, forestry and fishing	3	3	—	—	—	0.1	—	*3*	—	—	—	—	—	—
2	B – Mining and quarrying	39	—	—	—	—	—	—	—	—	—	—	—	—	—
3	C – Manufacturing	2,160	1,445	125	6	—	2.5	—	*1,499*	*77*	*130*	*43*	(4)	*(2)*	*(2)*
4	D – Electricity, gas, steam and air conditioning supply	157	58	—	42	—	5.2	—	*100*	—	—	—	—	—	—
5	E – Water supply; sewerage, waste management and remediation activities	18	—	—	—	—	—	—	—	—	—	—	—	—	—
6	F – Construction	38	22	—	—	—	2.2	—	*22*	—	—	—	—	—	—
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	988	758	9	—	—	0.6	—	*754*	*13*	*176*	*39*	(14)	*(2)*	*(12)*
8	H – Transportation and storage	578	242	140	184	—	6.1	—	*566*	—	*338*	—	(6)	*(6)*	—
9	L – Real estate activities	317	227	—	1	—	2.7	—	*228*	—	*30*	*20*	—	—	—
10	Loans collateralised by residential immovable property	2,216	19	6	42	156	23.3	—	*223*	—	*11*	*7*	(3)	*(1)*	*(2)*
11	Loans collateralised by commercial immovable property	566	321	1	9	—	2.3	—	*331*	—	*40*	*40*	(9)	—	*(8)*
12	Repossessed collateral	3	3	—	—	—	1.0	—	*3*	—	—	—	(1)	—	—
13	**Other relevant sectors (breakdown below where relevant)**	3,128	2,607	284	5	—	2.1	—	*2,730*	*166*	*417*	*286*	(117)	*(4)*	*(111)*
14	I – Accommodation and food service activities	66	5	—	—	—	2.0	—	*5*	—	—	—	—	—	—
15	J – Information and communication	115	62	—	—	—	2.3	—	*62*	—	—	—	—	—	—
16	K - Financial and insurance activities	52	9	—	—	—	3.2	—	*9*	—	*5*	*1*	—	—	—
17	M – Professional scientific and technical activities	2,482	2,178	253	4	—	2.1	—	*2,269*	*166*	*358*	*284*	(114)	*(3)*	*(110)*
18	N – Administrative and support service activities	358	320	31	—	—	1.5	—	*351*	—	*49*	—	(2)	*(1)*	—
19	O – Public administration and defence compulsory social security	—	—	—	—	—	—	—	—	—	—	—	—	—	—
20	P – Education	5	2	—	1	—	3.6	—	*3*	—	—	*1*	(1)	—	*(1)*
21	Q – Human health and social work activities	17	—	—	—	—	—	—	—	—	—	—	—	—	—
22	R – Arts, entertainment and recreation	21	21	—	—	—	1.7	—	*21*	—	*5*	—	—	—	—
23	S – Other service	12	10	—	—	—	3.5	—	*10*	—	—	—	—	—	—
	Total														
1	A – Agriculture, forestry and fishing	102	97	3	2	—	2.4	—	*102*	—	—	*29*	(8)	—	*(8)*
2	B – Mining and quarrying[1]	393	170	184	—	—	5.8	—	*175*	*179*	*9*	*179*	—	—	—
3	C – Manufacturing	5,100	4,171	247	14	—	2.5	—	*4,254*	*178*	*497*	*199*	(62)	*(6)*	*(54)*
4	D – Electricity, gas, steam and air conditioning supply	573	443	31	43	—	3.7	—	*463*	*54*	*9*	—	—	—	—

Table 38: Banking book – climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

		Gross carrying amount													
			of which exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Variable: Geographical area subject to climate change physical risk – acute and chronic events	€m	<= 5 years €m	> 5 year <= 10 years €m	> 10 year <= 20 years €m	> 20 years €m	Average weighted maturity years	*of which: exposures sensitive to impact from chronic climate change events* €m	*of which: exposures sensitive to impact from acute climate change events* €m	*of which: exposures sensitive to impact both from chronic and acute climate change events* €m	*of which: Stage 2 exposures* €m	*of which: non-performing exposures* €m	€m	*of which: Stage 2 exposures* €m	*of which: non-performing exposures* €m
5	E – Water supply; sewerage, waste management and remediation activities	**40**	**22**	**—**	**—**	**—**	**3.8**	***—***	***13***	***9***	***1***	***—***	**—**	***—***	***—***
6	F – Construction	**398**	**326**	**3**	**1**	**—**	**2.2**	***—***	***330***	***—***	***68***	***16***	**(12)**	***(1)***	***(11)***
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	**3,515**	**3,224**	**68**	**2**	**—**	**1.5**	***—***	***3,280***	***14***	***455***	***160***	**(102)**	***(4)***	***(97)***
8	H – Transportation and storage	**2,042**	**1,339**	**364**	**195**	**—**	**4.0**	***—***	***1,207***	***691***	***900***	***11***	**(13)**	***(8)***	***(5)***
9	L – Real estate activities	**3,879**	**2,833**	**663**	**240**	**3**	**3.5**	***—***	***3,739***	***—***	***524***	***54***	**(21)**	***(4)***	***(12)***
10	Loans collateralised by residential immovable property	**21,634**	**1,239**	**3,321**	**10,207**	**4,832**	**14.9**	***—***	***19,465***	***134***	***1,927***	***208***	**(68)**	***(7)***	***(60)***
11	Loans collateralised by commercial immovable property	**4,004**	**2,835**	**518**	**259**	**3**	**3.5**	***—***	***3,615***	***—***	***552***	***55***	**(19)**	***(5)***	***(10)***
12	Repossessed collateral	**3**	**3**	**—**	**—**	**—**	**1.0**	***—***	***3***	***—***	***—***	***—***	**(1)**	***—***	***—***
13	**Other relevant sectors (breakdown below where relevant)**	**13,417**	**11,702**	**923**	**77**	**1**	**2.4**	***—***	***12,424***	***279***	***1,317***	***807***	**(395)**	***(19)***	***(354)***
14	I – Accommodation and food service activities	**436**	**328**	**13**	**8**	**—**	**3.0**	***—***	***349***	***—***	***57***	***30***	**(9)**	***(1)***	***(8)***
15	J – Information and communication	**1,006**	**888**	**34**	**14**	**—**	**2.0**	***—***	***917***	***19***	***125***	***9***	**(9)**	***(4)***	***(4)***
16	K - Financial and insurance activities	**52**	**9**	**—**	**—**	**—**	**3.2**	***—***	***9***	***—***	***5***	***1***	**—**	***—***	***—***
17	M – Professional scientific and technical activities	**2,622**	**2,317**	**254**	**4**	**—**	**2.2**	***—***	***2,409***	***166***	***363***	***289***	**(115)**	***(3)***	***(111)***
18	N – Administrative and support service activities	**8,504**	**7,656**	**587**	**31**	**—**	**2.4**	***—***	***8,180***	***94***	***706***	***469***	**(255)**	***(9)***	***(226)***
19	O – Public administration and defence compulsory social security	**1**	**1**	**—**	**—**	**—**	**2.8**	***—***	***1***	***—***	***—***	***—***	**—**	***—***	***—***
20	P – Education	**17**	**13**	**1**	**1**	**—**	**2.7**	***—***	***15***	***—***	***1***	***1***	**(1)**	***—***	***(1)***
21	Q – Human health and social work activities	**121**	**78**	**26**	**—**	**—**	**4.0**	***—***	***104***	***—***	***7***	***2***	**(2)**	***—***	***(2)***
22	R – Arts, entertainment and recreation	**197**	**169**	**8**	**19**	**1**	**3.8**	***—***	***197***	***—***	***53***	***6***	**(4)**	***(2)***	***(2)***
23	S – Other service	**461**	**243**	**—**	**—**	**—**	**0.4**	***—***	***243***	***—***	***—***	***—***	**—**	***—***	***—***

1 *The counterparty sector classification disclosed in the template is aligned to the HBCE FINREP reporting. Due to evolving methodologies and data quality improvements since December 2022 reporting, a counterparty with balance of €70m (December 2022: €180m), reported under category C.32 – Other manufacturing during the year end 2022 has now been correctly reclassified under category B.06 – Extraction of crude petroleum and natural gas. This has been restated in the prior year comparative table.*

Table 38: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	Geographical area subject to climate change physical risk – acute and chronic events	Gross carrying amount €m	of which exposures sensitive to impact from climate change physical events: Breakdown by maturity bucket: <= 5 years €m	> 5 year <= 10 years €m	> 10 year <= 20 years €m	> 20 years €m	Average weighted maturity years	of which: exposures sensitive to impact from chronic climate change events €m	of which: exposures sensitive to impact from acute climate change events €m	of which: exposures sensitive to impact both from chronic and acute climate change events €m	of which: Stage 2 exposures €m	of which: non-performing exposures €m	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions €m	of which: Stage 2 exposures €m	of which: non-performing exposures €m
	31 Dec 2022														
	France														
1	A – Agriculture, forestry and fishing	90	59	2	1	—	2.6	—	62	—	1	2	(2)	—	(1)
2	B – Mining and quarrying[1]	503	210	—	183	—	5.8	—	196	197	182	183	—	—	—
3	C – Manufacturing	2,988	2,706	103	61	—	2.6	—	2,398	472	615	137	(58)	(5)	(51)
4	D – Electricity, gas, steam and air conditioning supply	325	288	31	6	—	3.0	—	269	56	124	—	—	—	—
5	E – Water supply; sewerage, waste management and remediation activities	2	2	—	—	—	2.6	—	2	—	—	—	—	—	—
6	F – Construction	321	317	3	1	—	2.6	—	311	10	20	18	(12)	—	(11)
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	2,668	2,581	55	3	—	1.9	—	2,633	6	406	125	(104)	(2)	(101)
8	H – Transportation and storage	1,441	1,113	271	26	—	3.3	—	1,166	244	778	11	(11)	(5)	(6)
9	L – Real estate activities	3,568	2,532	692	217	—	3.6	—	3,441	—	420	35	(22)	(6)	(12)
10	Loans collateralised by residential immovable property	217	214	2	1	—	2.9	—	217	—	30	34	(24)	(2)	(20)
11	Loans collateralised by commercial immovable property	3,299	2,311	557	233	—	3.8	—	3,101	—	422	15	(7)	(3)	(2)
12	Repossessed collateral	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Other relevant sectors (breakdown below where relevant)	10,658	8,879	579	68	3	2.6	—	9,021	508	1,228	493	(293)	(22)	(263)
14	I – Accommodation and food service activities	374	315	31	1	—	3.4	—	347	—	103	31	(10)	(1)	(9)
15	J – Information and communication	881	471	29	14	—	2.8	—	493	21	31	9	(5)	—	(4)
16	M – Professional scientific and technical activities	240	235	6	—	—	1.8	—	241	—	10	4	(2)	—	(1)
17	N – Administrative and support service activities	8,626	7,594	496	34	1	2.5	—	7,638	487	997	347	(217)	(19)	(192)
18	O – Public administration and defence compulsory social security	1	1	—	—	—	3.5	—	1	—	—	—	—	—	—
19	P – Education	15	15	—	—	—	2.8	—	15	—	3	—	—	—	—
20	Q – Human health and social work activities	167	151	9	—	—	3.4	—	160	—	12	97	(55)	—	(55)
21	R – Arts, entertainment and recreation	125	97	8	19	2	5.4	—	126	—	72	5	(4)	(2)	(2)
22	S – Other service activities	229	—	—	—	—	3.1	—	—	—	—	—	—	—	—
	Other geographical areas														
1	A – Agriculture, forestry and fishing	3	3	—	—	—	0.1	—	3	—	—	—	—	—	—
2	B – Mining and quarrying	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3	C – Manufacturing	2,103	1,310	149	1	—	2.7	—	1,424	36	180	64	(6)	(2)	(4)
4	D – Electricity, gas, steam and air conditioning supply	137	2	—	43	—	10.6	—	45	—	—	—	(1)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	26	2	—	—	—	—	—	2	—	—	—	—	—	—

Table 38: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

		Gross carrying amount													
			of which exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Geographical area subject to climate change physical risk – acute and chronic events		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	*of which: exposures sensitive to impact from chronic climate change events*	*of which: exposures sensitive to impact from acute climate change events*	*of which: exposures sensitive to impact both from chronic and acute climate change events*	*of which: Stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*
		€m	€m	€m	€m	€m	years	*€m*	*€m*	*€m*	*€m*	*€m*	€m	*€m*	*€m*
6	F – Construction	23	7	—	—	—	1.2	—	*7*	—	—	—	(1)	—	*(1)*
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	826	513	17	—	—	1.1	—	*521*	*9*	*49*	*32*	(13)	*(1)*	*(12)*
8	H – Transportation and storage	555	217	145	177	—	6.6	—	*539*	—	*263*	—	(5)	*(5)*	—
9	L – Real estate activities	327	236	6	—	—	2.9	—	*242*	—	*37*	*19*	—	—	—
10	Loans collateralised by residential immovable property	2,240	18	6	39	124	22.6	—	*187*	—	*9*	*6*	(2)	*(1)*	*(1)*
11	Loans collateralised by commercial immovable property	610	303	1	6	—	2.3	—	*310*	—	*90*	*22*	(1)	*(1)*	—
12	Repossessed collateral	3	2	—	—	—	1.0	—	*2*	—	—	—	—	—	—
13	Other relevant sectors (breakdown below where relevant)	2,913	2,288	340	4	28	2.7	—	*2,484*	*176*	*625*	*233*	(99)	*(6)*	*(93)*
14	I – Accommodation and food service activities	79	4	—	—	—	2.2	—	*4*	—	—	—	(1)	—	—
15	J – Information and communication	97	57	—	—	—	1.3	—	*57*	—	*12*	—	—	—	—
16	M – Professional scientific and technical activities	2,292	1,884	269	4	28	2.8	—	*2,009*	*176*	*556*	*233*	(97)	*(5)*	*(93)*
17	N – Administrative and support service activities	390	311	71	—	—	2.4	—	*382*	—	*48*	—	(1)	*(1)*	—
18	O – Public administration and defence compulsory social security	—	—	—	—	—	—	—	—	—	—	—	—	—	—
19	P – Education	4	—	—	—	—	—	—	—	—	—	—	—	—	—
20	Q – Human health and social work activities	18	1	—	—	—	2.6	—	*1*	—	—	—	—	—	—
21	R – Arts, entertainment and recreation	21	21	—	—	—	1.5	—	*21*	—	*9*	—	—	—	—
22	S – Other service activities	12	10	—	—	—	—	—	*10*	—	—	—	—	—	—
	Total														
1	A – Agriculture, forestry and fishing	93	62	2	1	—	2.5	—	*65*	—	*1*	*2*	(2)	—	*(1)*
2	B – Mining and quarrying	503	210	—	183	—	9.1	—	*196*	*197*	*182*	*183*	—	—	—
3	C – Manufacturing	5,091	4,016	252	62	—	2.6	—	*3,822*	*508*	*795*	*201*	(64)	*(7)*	*(55)*
4	D – Electricity, gas, steam and air conditioning supply	462	290	31	49	—	3.9	—	*314*	*56*	*124*	—	(1)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	28	4	—	—	—	1.5	—	*4*	—	—	—	—	—	—
6	F – Construction	344	324	3	1	—	2.6	—	*318*	*10*	*20*	*18*	(13)	—	*(12)*
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	3,494	3,094	72	3	—	1.8	—	*3,154*	*15*	*455*	*157*	(117)	*(3)*	*(113)*
8	H – Transportation and storage	1,996	1,330	416	203	—	4.2	—	*1,705*	*244*	*1,041*	*11*	(16)	*(10)*	*(6)*
9	L – Real estate activities	3,895	2,768	698	217	—	3.6	—	*3,683*	—	*457*	*54*	(22)	*(6)*	*(12)*
10	Loans collateralised by residential immovable property	2,457	232	8	40	124	12.0	—	*404*	—	*39*	*40*	(26)	*(3)*	*(21)*

Table 38: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

		Gross carrying amount													
			of which exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Geographical area subject to climate change physical risk – acute and chronic events		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	*of which: exposures sensitive to impact from chronic climate change events*	*of which: exposures sensitive to impact from acute climate change events*	*of which: exposures sensitive to impact both from chronic and acute climate change events*	*of which: Stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*
		€m	€m	€m	€m	€m	years	*€m*	*€m*	*€m*	*€m*	*€m*	€m	*€m*	*€m*
11	Loans collateralised by commercial immovable property	3,909	2,614	558	239	—	3.7	—	*3,411*	—	*512*	*37*	(8)	*(4)*	*(2)*
12	Repossessed collateral	3	2	—	—	—	1.0	—	*2*	—	—	—	—	—	—
13	Other relevant sectors (breakdown below where relevant)	13,571	11,167	919	72	31	2.6	—	*11,505*	*684*	*1,853*	*726*	(392)	*(28)*	*(356)*
14	I – Accommodation and food service activities	453	319	31	1	—	3.4	—	*351*	—	*103*	*31*	(11)	*(1)*	*(9)*
15	J – Information and communication	978	528	29	14	—	2.6	—	*550*	*21*	*43*	*9*	(5)	—	*(4)*
16	M – Professional scientific and technical activities	2,532	2,119	275	4	28	2.7	—	*2,250*	*176*	*566*	*237*	(99)	*(5)*	*(94)*
17	N – Administrative and support service activities	9,016	7,905	567	34	1	2.5	—	*8,020*	*487*	*1,045*	*347*	(218)	*(20)*	*(192)*
18	O – Public administration and defence compulsory social security	1	1	—	—	—	3.5	—	*1*	—	—	—	—	—	—
19	P – Education	19	15	—	—	—	2.6	—	*15*	—	*3*	—	—	—	—
20	Q – Human health and social work activities	185	152	9	—	—	3.4	—	*161*	—	*12*	*97*	(55)	—	*(55)*
21	R – Arts, entertainment and recreation	146	118	8	19	2	4.8	—	*147*	—	*81*	*5*	(4)	*(2)*	*(2)*
22	S – Other service activities	241	10	—	—	—	0.3	—	*10*	—	—	—	—	—	—

1 *The counterparty sector classification disclosed in the template is aligned to the HBCE FINREP reporting. Due to evolving methodologies and data quality improvements since December 2022 reporting, a counterparty with balance of €70m (December 2022: €180m), reported under category C.32 – Other manufacturing during the year end 2022 has now been correctly reclassified under category B.06 – Extraction of crude petroleum and natural gas. This has been restated in the prior year comparative table.*

Other climate change mitigating actions that are not covered in the EU Taxonomy

The table below reports other climate change mitigating actions that support counterparties in the transition and adaptation process for the objectives of climate change mitigation and adaptation. These mitigating actions include green bonds, sustainable bonds, sustainability-linked bonds, green loans and sustainability-linked loans, that are linked to aspects of climate change. The exposures reported in this table do not align with the criteria in the EU Taxonomy Regulation 2020/852 and will not be considered under the Green Asset Ratio ('GAR').

We have set out below our assessment of the actions to mitigate climate-related risks, and reported these on-balance sheet exposures in the table. These include loans invested in energy efficiency, green buildings, clean transportation, reduction of greenhouse gas emissions and renewable energy. Related exposures have been included where the use of proceeds is determined to be investments in projects that aim to mitigate climate transition or physical risk. Where it was not possible to fully determine whether sustainability-linked products are linked to aspects of climate change, these exposures have been excluded.

The green and sustainable bonds are part of the high quality liquid asset buffer, therefore carry a zero to very low risk weighting for capital requirement purposes. Certain aspects of this reporting rely on manual data sourcing. HSBC Continental Europe is taking steps to establish an ESG data utility tool to help streamline and support data needs across the organisation. This will involve enhancing the processes, systems, controls and governance to help achieve the required scale to meet the demands of future ESG reporting.

HSBC Continental Europe aims to continue to engage with business customers to increase contribution in projects which help to support the transition to a lower-carbon economy.

Table 39: Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10)

Type of financial instrument	Type of counterparty	Gross carrying amount €m	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)	Qualitative information on the nature of the mitigating actions
30 Jun 2023					
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	89	Y	N	The proceeds from these bonds are used for climate change transition risk purposes, and are deployed to sustainable investments such as green buildings, clean transport, renewable energy and other decarbonisation and carbon sequestration projects.
	Non-financial corporations	—	—	—	
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Other counterparties	263	Y	Y	The proceeds from these bonds are invested in projects with a climate change transition risk and/or physical risk mitigation objective. Financings are intended to be deployed to transition projects such as energy efficient buildings, clean transportation and renewable energy. Some bonds support projects which contribute to mitigate climate physical risk, including water management and soil erosion prevention.
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	20	Y	N	These loans are assessed as green either; to support green issuances, part of the original $100bn investing/financing commitment, or are part of the current ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They are invested in green buildings projects, whose aim is to support the transition to a lower carbon economy.
	Non-financial corporations	377	Y	N	These loans are assessed as green either; to support green issuances, part of the original $100bn investing/financing commitment, or are part of the current ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They are invested in green buildings projects (building refurbishments) supported by real estate companies, renewable energy and energy efficiency infrastructure projects, which all support the transition to a lower-carbon economy.
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Households	4	Y	N	These loans are invested in housing refurbishment and renewable energy projects in order to improve energy efficiency, which contributes to mitigate transition risk.
	– *of which: Loans collateralised by residential immovable property*	—	—	—	
	– *of which: building renovation loans*	—	—	—	
	Other counterparties	—	—	—	

Table 39: Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10) (continued)

Type of financial instrument	Type of counterparty	Gross carrying amount €m	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)	Qualitative information on the nature of the mitigating actions
31 Dec 2022					
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	97	Y	N	These bonds are invested in acquisition, construction or refurbishment of green buildings, renewable energy and low carbon transportation, thereby mitigating transition risk that might arise from changing governmental, technological and social demands placed upon the more environmentally destructive practices. This financing is intended to help encourage a shift towards alternatives.
	Non-financial corporations	—	—	—	
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Other counterparties	117	Y	Y	These bonds are invested in projects whose aim is to mitigate both transition and physical risks. They finance renewable energy projects, energy efficient buildings, green transportation (electric rail infrastructure, electric buses), research & development and deployment of innovative low carbon technology, which help to reduce dependency on fossil fuel intensive energy and then highly contribute to mitigate transition risk. Some bonds support projects which contribute to mitigate climate physical risk, such as soil erosion prevention.
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	19	Y	N	These loans are part of the ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They mainly finance green buildings projects, which support the transition to a lower carbon economy.
	Non-financial corporations	240	Y	N	These loans are part of the ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They finance green buildings projects (buildings refurbishments), renewable energy and energy efficiency infrastructure projects, which all support the transition to a lower-carbon economy.
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Households	4	Y	N	These loans are invested in housing refurbishment and renewable energy projects in order to improve energy efficiency, which contributes to mitigate transition risk.
	– *of which: Loans collateralised by residential immovable property*	—	—	—	
	– *of which: building renovation loans*	—	—	—	
	Other counterparties	—	—	—	

Appendix I

Capital buffers

The countercyclical capital buffer is an additional capital buffer introduced by Basel III to achieve the broad macroprudential goal of protecting the banking sector in periods of excess aggregate credit growth. National macroprudential authorities set the countercyclical buffer rate, usually within a 0-2.5 per cent range. Increases are announced at least a year in advance under normal circumstances.

The buffer for exposure to the French economy is set by the French High Council for Financial Stability. The buffer for exposure to the French economy has increased from 0% to 0.5% in April 2023. The buffer for exposures to the German economy and Dutch economy have increased from 0% to 0.75% in February 2023 and from 0 to 1% in May 2023 respectively.

The table below shows the make-up of HSBC Continental Europe's countercyclical capital buffer. The effective rate for 2023 countercyclical buffer rose to 0.60 per cent in 2023.

Table 40: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer ('CCyB1')

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/short positions for SA	Internal models	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
Country	**€m**	**€m**	**€m**	**€m**	**€m**	***€m***	***€m***	***€m***	**€m**	**%**	**%**
Andorra	—	—	—	—	—	—	—	—	—	—	—
Algeria	—	0.2	—	—	—	—	—	—	—	—	—
Argentina	0.1	0.5	—	—	—	—	—	—	—	—	—
Armenia	—	—	—	—	—	—	—	—	—	—	—
Australia	1.8	—	—	—	—	*0.1*	—	—	0.1	0.01	1.00
Austria	44.9	538.0	—	—	—	*24.9*	—	—	24.9	0.90	—
Azerbaijan	74.4	—	—	—	—	*0.3*	—	—	0.3	0.01	—
Bahrain	—	3.4	—	—	—	—	—	—	—	—	—
Bangladesh	—	19.3	—	—	—	*0.2*	—	—	0.2	0.01	—
Barbados	—	26.3	—	—	—	*1.0*	—	—	1.0	0.04	—
Belgium	43.4	966.4	—	—	—	*35.3*	—	—	35.3	1.28	—
Bermuda	—	268.6	—	—	—	*3.3*	—	—	3.3	0.12	—
Brazil	9.8	42.1	—	—	—	*0.3*	—	—	0.3	0.01	—
Bulgaria	2.6	7.3	—	—	—	*0.3*	—	—	0.3	0.01	1.50
Cameroon	—	—	—	—	—	—	—	—	—	—	—
Canada	5.8	14.8	—	—	—	*2.5*	—	—	2.5	0.09	—
Cayman Islands	—	153.0	—	—	—	*1.0*	—	—	1.0	0.03	—
Chile	0.1	2.4	—	—	—	—	—	—	—	—	—
China	0.2	19.0	—	—	—	*0.3*	—	—	0.3	0.01	—
Colombia	—	0.2	—	—	—	—	—	—	—	—	—
Costa Rica	0.2	—	—	—	—	—	—	—	—	—	—
Croatia	—	1.4	—	—	—	*0.1*	—	—	0.1	—	0.50
Cyprus	0.4	25.8	—	—	—	*1.6*	—	—	1.6	0.06	—
Czech Republic	57.4	399.0	—	—	—	*18.7*	—	—	18.7	0.68	2.50
Denmark	—	1,132.7	—	—	—	*46.4*	—	—	46.4	1.68	2.50
Egypt	158.3	36.7	—	—	—	*1.4*	—	—	1.4	0.05	—
Estonia	—	—	—	—	—	—	—	—	—	—	1.00
Faroe Islands	0.8	—	—	—	—	*0.1*	—	—	0.1	—	—
Finland	3.2	113.7	—	—	—	*2.0*	—	—	2.0	0.07	—
France	1,084.3	41,670.0	—	—	5,007.9	*1,081.0*	—	*65.3*	1,146.2	41.55	0.50
French Guiana	—	—	—	—	—	—	—	—	—	—	—
French Southern Territories	0.1	—	—	—	—	—	—	—	—	—	—
Germany	632.4	9,492.5	—	—	538.3	*445.3*	—	*4.8*	450.1	16.31	0.75
Ghana	—	192.2	—	—	—	*13.4*	—	—	13.4	0.49	—
Greece	247.0	541.9	—	—	—	*36.0*	—	—	36.0	1.30	—
Guadeloupe	—	0.2	—	—	—	—	—	—	—	—	—
Guernsey	—	37.5	—	—	—	*1.5*	—	—	1.5	0.06	—
Hong Kong	0.4	326.9	—	—	—	*2.3*	—	—	2.3	0.08	1.00
Hungary	—	261.4	—	—	—	*2.4*	—	—	2.4	0.09	—
India	—	2.9	—	—	—	—	—	—	—	—	—
Indonesia	—	89.3	—	—	—	*0.7*	—	—	0.7	0.03	—
Ireland	382.5	1,773.9	—	—	—	*76.9*	—	—	76.9	2.79	0.50
Isle Of Man	—	1.3	—	—	—	*0.1*	—	—	0.1	—	—
Israel	1.9	11.9	—	—	—	*0.2*	—	—	0.2	0.01	—
Italy	258.9	980.0	—	—	271.7	*70.0*	—	*4.2*	74.3	2.69	—
Japan	—	0.4	—	—	—	—	—	—	—	—	—
Jersey	—	5.9	—	—	—	*0.3*	—	—	0.3	0.01	—
Jordan	—	—	—	—	—	—	—	—	—	—	—

Table 40: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer ('CCyB1') (continued)

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	*of which: General credit exposures*	*of which: General trading book*	*of which: Securiti-sation exposures*	Total	Own funds require-ments weights	CCyB rate
Kazakhstan	—	66.3	—	—	—	*0.4*	—	—	*0.4*	0.02	—
Kenya	—	—	—	—	—	—	—	—	—	—	—
Korea, Republic Of	—	—	—	—	—	—	—	—	—	—	—
Kuwait	—	0.4	—	—	—	—	—	—	—	—	—
Latvia	—	—	—	—	—	—	—	—	—	—	—
Lebanon	—	—	—	—	—	—	—	—	—	—	—
Liberia	0.1	—	—	—	—	*0.1*	—	—	0.1	—	—
Libya	—	—	—	—	—	—	—	—	—	—	—
Liechtenstein	—	150.8	—	—	—	*2.7*	—	—	2.7	0.10	—
Lithuania	—	0.1	—	—	—	—	—	—	—	—	—
Luxembourg	451.2	2,815.0	—	—	—	*116.5*	—	—	116.5	4.22	0.50
Malaysia	—	6.6	—	—	—	*0.1*	—	—	0.1	—	—
Malta	3,009.4	163.7	—	—	—	*135.6*	—	—	135.6	4.91	—
Mauritius	—	0.1	—	—	—	—	—	—	—	—	—
Mexico	0.9	91.5	—	—	—	*1.2*	—	—	1.2	0.04	—
Monaco	—	1.8	—	—	—	*0.1*	—	—	0.1	—	—
Montenegro	—	3.4	—	—	—	*0.1*	—	—	0.1	—	—
Morocco	—	0.3	—	—	—	—	—	—	—	—	—
Netherlands	1,021.9	3,362.2	—	—	965.0	*186.1*	—	*8.1*	194.1	7.04	1.00
New Caledonia	—	—	—	—	—	—	—	—	—	—	—
New Zealand	—	—	—	—	—	—	—	—	—	—	—
Nigeria	0.1	—	—	—	—	—	—	—	—	—	—
Norway	0.5	69.7	—	—	—	*2.1*	—	—	2.1	0.08	2.50
Oman	—	0.2	—	—	—	—	—	—	—	—	—
Pakistan											
Panama	—	152.3	—	—	—	*0.1*	—	—	0.1	—	—
Paraguay	2.8	—	—	—	—	—	—	—	—	—	—
Peru	—	—	—	—	—	—	—	—	—	—	—
Philippines	—	—	—	—	—	—	—	—	—	—	—
Poland	449.7	368.8	—	—	—	*43.4*	—	—	43.4	1.57	—
Portugal	4.1	57.2	—	—	—	*1.9*	—	—	1.9	0.07	—
Qatar	0.2	29.5	—	—	—	—	—	—	—	—	—
Réunion	—	—	—	—	—	—	—	—	—	—	—
Romania	—	6.6	—	—	—	*0.2*	—	—	0.2	0.01	0.50
Russian Federation	0.3	0.5	—	—	—	*0.1*	—	—	0.1	—	—
Saudi Arabia	0.1	—	—	—	—	—	—	—	—	—	—
Serbia	—	—	—	—	—	—	—	—	—	—	—
Seychelles	—	—	—	—	—	—	—	—	—	—	—
Singapore	0.9	2.7	—	—	—	*0.4*	—	—	0.4	0.01	—
Slovakia	3.0	55.2	—	—	—	*1.4*	—	—	1.4	0.05	1.00
Slovenia	—	0.5	—	—	—	—	—	—	—	—	—
South Africa	0.2	0.7	—	—	—	*0.1*	—	—	0.1	—	—
Spain	432.9	1,644.5	—	—	0.5	*86.5*	—	—	86.5	3.14	—
Sri Lanka	—	—	—	—	—	—	—	—	—	—	—
Sweden	0.2	682.0	—	—	—	*60.3*	—	—	60.3	2.18	2.00
Switzerland	5.2	1,280.8	—	—	—	*25.3*	—	—	25.3	0.92	—
Taiwan, Province Of China	1.5	0.3	—	—	—	*0.1*	—	—	0.1	—	—
Thailand	—	68.9	—	—	—	*0.1*	—	—	0.1	—	—
Tunisia	—	—	—	—	—	—	—	—	—	—	—
Turkey	52.1	108.6	—	—	—	*5.4*	—	—	5.4	0.20	—
United Arab Emirates	3.6	384.7	—	—	—	*6.1*	—	—	6.1	0.22	—
United Kingdom	1,176.8	1,549.9	—	—	—	*75.5*	—	—	75.5	2.74	2.00
United States	135.2	2,021.9	—	—	—	*52.8*	—	—	52.8	1.91	—
Uruguay											
Viet Nam	—	59.3	—	—	—	*1.3*	—	—	1.3	0.05	—
Virgin Islands, British	—	14.6	—	—	—	*0.5*	—	—	0.5	0.02	—
Zimbabwe	—	—	—	—	—	—	—	—	—	—	—
Total	**9,763.8**	**74,380.6**	**—**	**—**	**6,783.3**	***2,676.5***	**—**	***82.4***	**2,758.9**	**100.00**	**0.60**

Table 41: Amount of Institution specific countercyclical Capital buffer ('CCyB2')

	30 Jun 2023	31 Dec 2022
Total Risk Exposure Amount (€m)	**58,634**	58,561
Institution specific countercyclical capital buffer rate (%)	**0.60**	0.11
Institution specific countercyclical capital buffer requirement (€m)	**352**	66

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

A	
ADEME	Agence De l'Environnement et de la Maîtrise de l'Energie
AFL	Accelerating Female Leadership
AFS[1]	Available-for-sale
AGM	Annual General Meeting
AIL	Accelerating into Leadership
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
AT1 capital	Additional tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
bps	basis points
BSM	Balance Sheet Management
C	
CCM	Environmentally sustainable
CCP	Central counterparty
CCR[1]	Counterparty credit risk
CDP	Carbon Disclosure Project
CDS[1]	Credit default swap
CEO	Chief Executive Officer
CESGROF	Environmental, Social and Governance Risk Oversight Forum
CET1[1]	Common Equity Tier 1
CIU	Collective investment undertakings
CoS	Chief of Staff
CRA[1]	Credit risk adjustment
CRD IV[1]	Capital Requirements Directive
CRE[1]	Commercial real estate
CRM	Credit risk mitigation/mitigant
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CSO	Chief Sustainability Officer
CSRD	Corporate Sustainability Reporting Directive
CVA	Credit valuation adjustment
D	
D-SIB	Domestic-Systemically Important Bank
E	
EAD[1]	Exposure at default
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EL[1]	Expected loss
ELCs	Entity Level Controls
EPBD	Energy Performance of Building Directive
EPC	Energy Performance Certificate
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
EVE[1]	Economic value of equity
F	
FIM	Functional Instruction Manual
FPC[1]	Financial Policy Committee (UK)
FSB	Financial Stability Board
G	
GAR	Green Asset Ratio
GCEL	Global Coal Exit List
GB	Global Banking
GHG	Greenhouse gas
GOGEL	Global Oil and Gas Exit List
Group	HSBC Holdings together with its subsidiary undertakings
H	
HCSF	High Council for Financial Stability
HR	Human Resources
HSBC	HSBC Holdings together with its subsidiary undertakings
HTC&S SVaR	Hold-to-collect-and-sell stressed value at risk
I	
IAA[1]	Internal Assessment Approach
ICAAP[1]	Internal Capital Adequacy Assessment Process
ICG	Individual capital guidance
IEA	International Energy Agency
IFRSs	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
ILR	Inherent Liquidity Risk
IMA	Internal Models Approach
IMM1	Internal Model Method
INSEE	Notary price index
IPU	Intermediate Parent Undertaking
IRB[1]	Internal ratings based approach
IRC[1]	Incremental risk charge
ITS	Implementing Technical Standard
L	
LAB	Liquid Asset Buffer
LCR	Liquidity Coverage Ratio
LFRF	Liquidity and Funding Risk Management Framework
LGD[1]	Loss given default
M	
MI	Management Information
MREL	Minimum requirements for own funds and eligible liabilities
MRT	Material Risk Taker
MSS	Market Security Services
N	
NACE	The Statistical Classification of Economic Activities in the European Community
NFRD	Non-financial Reporting Directive
NGO	Non-Governmental Organisation
NPS	Net Promoter Score
NQH	Non Qualifying Hedge
NSFR	Net Stable Funding Ratio
NZBA	Net-Zero Banking Alliance
NZE	Net-Zero Emission
O	
OCR	Overall Capital Requirement
OECD	Organisation for Economic Cooperation and Development
OTC[1]	Over-the-counter
P	
P1R	Pillar 1 requirement
P2G	Pillar 2 guidance
P2R	Pillar 1 requirement
PD[1]	Probability of default
PFE[1]	Potential future exposure
POCI	Purchased or originated credit-impaired
PP&E	Property plant and equipment
PRA[1]	Prudential Regulation Authority (UK)
R	
RAS	Risk appetite statement
RBM[1]	Ratings Based Method
RMM	Risk Management Meeting of the Group Management Board
RNIV	Risks not in VaR

RRCSC	Reputational Risk and Client Selection Committee
RTS	Regulatory Technical Standards
RWA[1]	Risk-weighted asset
S	
S&P	Standard and Poor's rating agency
SBTI	Science Based Targets Initiative
SOT	Standard Outlier Test
STD[1]	Standardised approach
SA-CCR	Standardised approach for counterparty credit risk
SFM[1]	Supervisory Formula Method
SFT[1]	Securities Financing Transactions
SME	Small and medium-sized enterprise
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
T	
TCFD	Task Force on Climate-related Financial Disclosure
TLAC[1]	Total Loss Absorbing Capacity
TNFD	Task Force on Nature-related Financial Disclosure
TTC[1]	Through-the-cycle
T1 capital	Tier 1 capital
T2 capital	Tier 2 capital
U	
UK	United Kingdom
UNGC	United Nations Global Compact
V	
VaR[1]	Value at risk
W	
WPB	Wealth Management and Private Banking

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

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