HSBC Continental Europe

1st Amendment of the Universal registration document and Interim Financial Report 2023

HSBC

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Presentation of information

This amendment to the Universal Registration Document was filed on 2 August 2023 with the French financial markets authority *(Autorité des Marchés Financiers – AMF)*, as the competent authority under Regulation (EU) n°2017/1129, without prior approval in accordance with Article 9 of that Regulation.

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

All references to the *2022 Universal Registration Document* refer to the *2022 Universal Registration Document and Annual Financial Report* filed on 1 August 2023 with the *AMF* under reference number D.23-0634.

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

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Reference to the Universal Registration Document

This amendment to the Universal Registration Document refers to the *2022 Universal Registration Document and Annual Financial Report* filed with the AMF on 1 August 2023 under reference number D.23-0634.

Cautionary statement regarding forward-looking statements

This amendment to the Universal Registration Document contains certain forward-looking statements with respect to the financial condition, matters related to Environmental, Social and Governance ('ESG'), and the results of operations and business of the group. Statements that are not historical facts, including statements about the Group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements.

These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC Continental Europe makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

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

This is a translation into English of the first amendment to the Company's Universal Registration Document issued in French and it is available on the website of the Issuer.

Highlights

	Half-year to	
	30 Jun 2023	30 Jun 2022
For the period (€m)		
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)[1]	**3,951**	1,029
Profit/(loss) before tax (reported basis)	**2,587**	54
Profit/(loss) attributable to shareholders of the parent company (reported basis)	**1,933**	31
At period end (€m)		
Total equity attributable to shareholders of the parent company	**13,171**	8,190
Total assets	**287,404**	238,847
Risk-weighted assets	**58,634**	47,893
Loans and advances to customers (net of impairment allowances)[2]	**62,537**	57,717
Customer accounts[3]	**104,183**	66,912
Capital ratios %		
Common Equity Tier 1	**15.3**	13.7
Tier 1	**17.8**	15.8
Total capital	**20.4**	18.7
Performance, efficiency and other ratios (annualised %)		
Annualised return on average shareholders' equity[4]	**31.4**	0.8
Pre-tax return on average risk-weighted assets (reported basis)	**4.4**	0.1
Cost efficiency ratio (reported basis)[5]	**34.2**	94.8
Average liquidity Coverage Ratio ('LCR')[6]	**159**	145
Average Net Stable Funding Ratio ('NSFR')[6]	**138**	129

1 *Net operating income before change in expected credit losses and other credit risk provisions is also referred to as revenue.*
2 *Loans and advances to customers of the Greece branch are classified as held for sale and are not included. Please refer to Note 10 in 'Notes on the condensed financial statements'.*
3 *Customer accounts of the Greece branch are classified as held for sale and are not included. Please refer to Note 10 in 'Notes on the condensed financial statements'.*
4 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
5 *Reported cost efficiency is defined as total operating expenses divided by net operating income before change in expected credit losses and other credit and other credit risk provisions.*
6 *According to the regulation EU 2019/876 of the European Parliament ('CRR II').*

Performance highlights

HSBC Continental Europe's performance during the first half of 2023 was positive with growth in profitability driven by wholesale banking revenues, demonstrating the strength of our global franchise and international connectivity, coupled with low credit losses and a favourable cost performance.

HSBC Continental Europe acquired HSBC Germany and HSBC Malta on 30 November 2022 and therefore the below financials include the results of these two entities for the first half of 2023.

On 14 April 2023, we announced that the sale of the retail banking operations in France no longer met the criteria to be classified as held for sale, resulting in a reversal of EUR 1.9 billion of previously recognised impairment. On 14 June 2023, we 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 (following significant interest rate rises since the sale was first agreed) and to obtain regulatory approval for the transaction. There is no immediate change to the accounting treatment of the business under IFRS. 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.

These transactions support our ambition to become the leading international wholesale bank in Continental Europe with an integrated pan-European platform anchored in Paris, complemented by a targeted wealth offering.

Reported profit before tax was EUR 2,587 million, up from EUR 54 million in the first half of 2022, and included the reversal of the impairment previously recognised in relation to the planned sale of retail banking operations in France (EUR 1,943 million).

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 3,951 million, up from EUR 1,029 million in the first half of 2022, and included the reversal of the impairment previously recognised in relation to the planned sale of retail banking operations in France and the impact of the acquisition of HSBC Germany and HSBC Malta. Income in the first half of 2022 also included losses of EUR 111 million associated with the sale of our branch operations in Greece, completed in July 2023. Commercial Banking and Global Banking revenues increased in the first half of 2023, particularly in Global Payment Solutions, which benefited from rising interest rates and higher deposit balances.

Reported change in expected credit losses and other credit impairment charges was a charge of EUR 13 million, whereas it was nil in the first half of 2022. The cost of risk, at 4bps, remained low and the increase was mostly driven by specific provisions.

Reported operating expenses were EUR 1,351 million, up from EUR 975 million in the first half of 2022, including the impact of the acquisition of HSBC Germany and HSBC Malta. Offsetting this were lower infrastructure costs and lower contributions to the Single Resolution Fund.

Reported profit attributable to shareholders of the parent company for the period was EUR 1,933 million for the half year to 30 June 2023, compared with EUR 31 million in the first half of 2022.

Presentation of activities and strategy

About HSBC Group

Our purpose and ambition

The HSBC Group's purpose is 'Opening up a world of opportunity' with an ambition to be the preferred international finance partner for its clients.

HSBC Values

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

We value difference

Seeking out different perspectives.

We succeed together

Collaborating across boundaries.

We take responsibility

Holding ourselves accountable and taking the long view.

We get it done

Moving at pace and making things happen.

HSBC Group strategy

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

The Group's strategy centres on four key areas: focus on our areas of strength, digitise at scale to adapt our operating model for the future, energise our organisation for growth and support the transition to net zero.

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

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

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

Transition to net zero: the Group's ambition is to support the transition to a net zero global economy. The Group has set out an ambitious plan to become a net zero bank, to support customers in their transition by 2050.

About HSBC Bank plc

With assets of GBP 723 billion at 30 June 2023, HSBC Bank plc is one of Europe's largest banking and financial services organisations. HSBC Bank plc employs around 14,200 people across Europe.

HSBC Bank plc is the parent company of HSBC Continental Europe.

HSBC in Europe

Europe is an important part of the global economy, accounting for approximately 40 per cent of global goods trade and one-quarter of global Gross Domestic Product (UNCTAD, 2022). In addition, Europe is the world's top exporter of services and second largest exporter of manufactured goods (UNCTAD, 2022). HSBC Bank plc helps to facilitate trade within Europe and between Europe and other countries where the Group has a presence.

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

The London hub provides overall governance and management for the Europe region as a whole and is a global centre of excellence for wholesale banking for the Group.

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

HSBC Bank plc's strategy

HSBC Bank plc's strategic vision is to be the leading international wholesale bank connecting East and West, with a complementary Wealth business, an efficient operating model and a robust control framework (see section 'Our Global Businesses' on page 7).

HSBC Bank plc serves to open up a world of opportunity for our customers by connecting them to international markets. Europe is the largest trading region in the world and Asia is Europe's biggest and fastest growing external trading partner (UNCTAD, 2022). We are well positioned to capitalise on this opportunity and play a pivotal role for the Group.

About HSBC Continental Europe

HSBC in Continental Europe

The European Union is home to some of the best performing, forward thinking companies, ranging from entrepreneurial startups to multinational corporates. The EU is also one of the world's largest trading bloc set in a dynamic market of approximately 450 million consumers. Europe's largest goods trade corridor is with Asia (Eurostat, 2022); and Europe–United States is the largest bilateral trade and investment relationship in the world (European Commission, 2022).

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

HSBC strategy implemented in Continental Europe

Below we provide a progress update on our commitments and strategic initiatives for the first half of 2023. Looking ahead, with sustained inflationary pressure across Europe, high central bank interest rates and the continued impact of the war in Ukraine, we expect to be operating in an uncertain external environment for the remainder of the year.

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

Focus on our strengths

Be the leading international wholesale bank in Continental Europe complemented by a targeted wealth offering

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

We are simplifying our operating structure. In response to the requirement for an Intermediate Parent Undertaking ('IPU') in line with EU Capital Requirements Directive for European Union banking entities ('CRD V'), we acquired HSBC Trinkaus & Burkhardt GmbH ('HSBC Germany') and HSBC Bank Malta plc in the second half of 2022.

The transfer of HSBC Germany from HSBC Bank plc to HSBC Continental Europe took place in November 2022. HSBC Continental Europe completed the transfer of activities and staff from HSBC Germany to HSBC Continental Europe, Germany Branch on 30 June 2023. This is a significant milestone in building a unified, simplified and strengthened Europe to serve our customers more efficiently.

The acquisition of HSBC Private Bank Luxembourg is expected to be completed in the fourth quarter of 2023. This will conclude our IPU requirements.

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

HSBC Continental Europe completed the disposal of its branch operations in Greece.

During 1Q23, the significant interest rate rises in France resulted in the completion of the planned sale of our retail operations in France becoming less certain, as the capital required to be held by the buyer at completion of the transaction will increase significantly. As a result we were required to change the accounting classification of our retail banking operations in France to no longer be classified as held for sale. In June, we agreed new terms for the sale of these operations that will involve HSBC retaining a portfolio of home and other loans. 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. An estimated pre-tax loss of up to EUR 2.0 billion is expected to be recognised in the second half of 2023 upon reclassification to held for sale.

Digitise at scale

HSBC Group is continuing to invest in technology to help deliver excellent customer service and to enable higher productivity across its organisation.

To improve how we serve our customers, HSBC Group is accelerating the roll-out of its best-in-class digital platforms globally. The Group is increasing the usage of the Cloud in its production services and building modern, resilient architecture to ensure scale and resilience.

As the world becomes increasingly mobile and digitally focused, the Group has continued its development and enhancements of its digital channels in Global Payments Solutions ('GPS'). In addition, it continued its investments in robotics for customers using HSBCnet to reduce set up times and provide customers with faster access to banking products, while pursuing the roll-out of e-signatures and maximising existing self service capabilities available via HSBCnet. These developments have contributed to a significant rise in the number of customers moving to mobile banking, as they embrace the opportunity to access banking services on the go. HSBC Group has also introduced enhanced customer service tools for HSBC staff, enabling comprehensive visibility into the file processing journey including for the status of customer payments. The result is reduced query resolution time for client questions. HSBC Group has invested in HSBC Developer Portal and API Sandbox, which allows customers and developers to explore the right APIs to enable rapid integration with their own products. In addition, DevOps tooling is increasingly adopted in testing automation and continuous deployment and integration to ensure the robustness of the coding deliveries.

The strategy of HSBC Group in Europe regarding trade finance and receivable financing activities (Global Trade and Receivable Finance) is to make trade easier, faster and safer, whilst delivering sustainable and profitable growth. HSBC Continental Europe is strengthening its digital capabilities through continuous enhancements of its proprietary channel HSBCnet and investing in SWIFT for Corporates for Trade to enable the latest market standards.

HSBC Continental Europe is also increasing efforts to embed its product capabilities in a global trade ecosystem in collaboration with third-party platforms, such as providing market leading technology for Supply Chain Finance solutions, rolling out a blockchain solution that fully digitises Letters of Credit, and establishing partnership to address the needs of its commodities clients for multi-bank proposition. As a result, more than 80 per cent of trade transactions across Europe are conducted digitally.

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

HSBC Continental Europe is continuing to invest in strengthening the security of its technology infrastructure and further alignment of IT systems across Europe. The rationalisation and the simplification of the IT landscape is part of the HSBC Continental Europe Technology Strategy and aim to increase scalability and resilience for our customers. The creation of an integrated wholesale bank will allow

HSBC Continental Europe to streamline the credit approval process in its wholesale business, benefiting its clients who will see a seamless and fast track credit process.

Energise for growth

HSBC Continental Europe remains committed to energising its people through active engagement in a more effective, agile and empowered organisation. HSBC Continental Europe has been engaging colleagues through initiatives to enable them to apply HSBC Group's purpose and values in the ways of working and serving customers.

Inspire a dynamic culture

HSBC Continental Europe is implementing a dynamic, inclusive and connected culture, and enabling employees to develop their skills for the future.

HSBC Continental Europe is committed to fostering a supportive environment focused on mental health and well-being, and encouraging co-workers to adopt alternative and more flexible ways of working.

HSBC Continental Europe has deployed a comprehensive development programme over the period of transformation, offering staff inspiring conferences, peer coaching for managers, as well as wellbeing workshops.

Champion inclusion

HSBC Continental Europe has a strong commitment to increase diversity across its organisation (including an aspiration to achieve more than 35 per cent of female senior leadership by the end of 2025), raising awareness on the importance of diversity on the Executive Committee agenda, and in its governance committees as well as in its Diversity and Inclusion working groups, collaborating closely with its Employee Resources Group. In the first half of 2023, 30 ERGs were active within HSBC Continental Europe.

In the first half of 2023, HSBC Continental Europe has: (i) contributed to create an inclusive workplace though its active participation in the Europe Inclusive programme, with 14 conferences hosted by European Executive committee members; (ii) continued employees' training/awareness by promoting Inclusive workshops, open to all, in addition to the mental health training; (iii) actively worked to reach out our Gender Diversity targets formalised though the *Financi'Elles Charter*; (iv) promoted ethnicity awareness through exchanges sessions hosted by our senior leaders and presenting testimonies of our employees' journeys; and (v) pursued positive actions for LGBTQ+ inclusiveness, by signing the Charter of l'Autre Cercle, on 31 May 2023.

Develop future skills

In HSBC Continental Europe, the Future Skills programme has continued to deliver masterclasses on soft and transversal skills in 2022 and the first half of 2023. In addition, HSBC Continental Europe launched a new Sustainability Academy for HSBC Continental Europe's employees.

For managers, specific courses have been offered to foster growth and inclusive leadership through the new People Management Programme. HSBC Continental Europe continues to encourage staff to use the integrated Degreed training platform and take time every week to explore learning opportunities to support their self-development.

Transition to Net Zero

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. Europe is characterised by a deep and progressive Environmental, Social and Governance ('ESG') regulatory landscape, with a growing need to expand the risk management and disclosure beyond climate to environmental risks (e.g. biodiversity), as well as the social and governance aspects of ESG.

One of the Group's strategic pillars is to support the transition to a net zero global economy.

The transition to net zero is one of the biggest challenges of our generation. 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 the ambition requires enhanced processes and controls, and new sources of data. The Group continues to invest in climate resources, 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.

Become a net zero bank in its portfolio of clients by aligning financed emissions to net zero by 2050, or sooner

In 2020, the HSBC Group set out ambitions to align the Group's 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 Group, that define its appetite for business in specific sectors and encourage customers to meet international standards. Recently, the Group published two policies including the Coal Policy to phase out the financing of coal-fired power and 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 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 Group 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 measuring its financed emissions for two emissions-intensive sectors: oil and gas, and power and utilities. In 2022, it has also started to measure the financed emissions for four additional sectors: cement; iron, steel and aluminium; automotive; and aviation. HSBC Group is reviewing and refining its basis of preparation to report its thermal coal exposure as part of HSBC's commitment to phase-out thermal coal financing in the EU and the OECD by 2030.

Support customers in 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

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

includes lending facilities, capital markets facilitated transactions and investments.

To understand the impact of climate change on customers, the frontline teams in HSBC Continental Europe work with their customers to capture holistic information on their exposure to the transition to net zero emissions, and the risks and opportunities in five key areas: emissions, reduction targets, plans, transition risks, physical risks. Together with external data sources, responses 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, is available to all employees.

Become a net zero bank in its operations and supply chain by 2030 or sooner

Aligned to its commitment to become a net zero bank in its operations and supply chain by 2030, the Group has the ambition to reduce its energy consumption by 50 per cent by 2030 and to achieve 100 per cent renewable power across its operations by 2030. HSBC Continental Europe is focusing its action on four objectives: reduce its greenhouse gas emissions, including those related to business travel, improve energy efficiency and reduce production of non-recycled waste and paper consumption.

Our Global Businesses

HSBC Continental Europe manages its products and services through its three global businesses: Global Banking and Markets, which comprises three reportable segments Markets & Securities Services, Global Banking, and GBM Other, Commercial Banking, and Wealth and Personal Banking; and the Corporate Centre (comprising certain legacy assets, central stewardship costs, and interests in its associates and joint ventures). These segments are supported by Digital Business Services, and 11 global functions, including Risk, Finance, Compliance, Legal, and Human Resources.

Global Banking and Markets ('GBM')

Markets & Securities Services ('MSS')

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

The business offers clients a range of products and services across asset classes and geographies, through dedicated sales, traders and research teams. For our corporate and institutional clients, we offer access to products and services in Global Debt Market, Equities , Securities Financing and, following the acquisition of HSBC Germany in November 2022, Warrants.

In addition, our Securities Services business provides global solutions for our clients in the areas of safekeeping of securities, clearing and depository services.

The MSS European team plays a key role in providing cross-asset services, bridging emerging and developed markets, and collaborating with other global businesses to provide clients across the Group with bespoke products and solutions that support their growth and net zero ambitions.

HSBC Continental Europe plays a key role as the Group's strategic platform for euro-denominated rates products, being a Specialist in Treasury Securities or primary dealer in the debt market, and has extended its risk management capacities, in particular in Equities products with European stocks.

MSS continues to invest in technology and digital transformation to enhance client experience and improve operational efficiencies.

Global Banking ('GB')

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

GB provides a comprehensive suite of services including leverage and acquisition financing, advisory, equity and debt capital markets, issuer services, trade services and global payment services.

Operating across HSBC Continental Europe's markets, Global Banking teams take a client-centric approach bringing together relationship and product expertise to deliver financial solutions customised to suit clients' growth ambitions and financial objectives. GB works closely with its business partners in all business lines, to provide a range of products and seamless services to meet the needs of the whole clients.

GB in HSBC Continental Europe operates as an integral part of the global business and contributes significant revenues to other regions through its client base in Continental Europe.

In Continental Europe, GB's priority is to be a top bank in transaction banking and key advisory, financing and capital markets mandates; helping clients seize international growth opportunities and leveraging the Group's expertise and global network.

GBM Other

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

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

Commercial Banking ('CMB')

Commercial Banking has a clear strategy to be the leading international corporate bank in Europe. CMB connects its European customers to the Group's international network of relationship managers and product specialists; supporting their growth ambitions and targets.

CMB products range from term loans to global treasury and trade solutions. Commercial Banking collaborates closely with Global Banking and Markets to provide expertise in capital finance and advisory solutions. Trade teams within CMB provide import and export finance solutions to Global Banking and Markets clients. CMB is expanding its services and products to provide customers with sustainable finance solutions to meet clients' net zero ambitions. Commercial Banking contributes significant revenues to other regions, particularly Asia, through its European client base, and draws benefit from the client network managed outside Europe.

CMB in Continental Europe continues to evolve its service model, as clients orientate towards self-service and more digitalised solutions. CMB's plan to reposition the small business of HSBC Continental Europe Commercial Banking in France towards this objective is making good progress.

Wealth and Personal Banking ('WPB')

Whilst recognising the planned disposals of our retail operations in France and of our branch operations in Greece, in the first half of 2023, WPB helped approximately one million customers with their financial needs through Retail Banking, Wealth Management, Insurance, Asset Management in France, Malta and Germany and Private Banking in Germany. HSBC Continental Europe offers a full range of products and services to meet the personal banking and wealth management needs of customers from personal banking to ultra-high net worth persons.

The product offer for HSBC retail customers is a full suite of products including personal banking products, such as current and savings accounts, mortgages and unsecured loans, credit cards (in Greece and Malta), debit cards and local and international payment services. In addition, WPB offers various propositions, including Premier, Graduates, Students and Fusion, as well as wealth solutions, financial planning and international services. In France, there has been a sustained focus on customer experience which has significantly improved over the recent years, driven by an improved distribution model, as well as enhanced online and mobile platforms offering a steadily increasing scope of services and products. In Malta, its customer-led growth strategy is successfully leading customers to choose HSBC as their main bank, primarily driven by the strategic initiatives taken to deliver outstanding customer experience, including the introduction of a remote customer onboarding journey and the alignment of its value propositions to customer needs.

HSBC Continental Europe offers a range of insurance products through its subsidiaries in France and Malta; and asset management services to its clients in France, Germany, Malta, Belgium Spain, Italy, Luxembourg, Netherlands, Portugal, Switzerland, Austria and Nordics through its subsidiaries in France, Germany, Malta.

In line with our IPU obligations, HSBC Continental Europe will acquire HSBC Private Bank Luxembourg, the Group's Continental European private banking hub. The acquisition is expected to complete in the fourth quarter of 2023 and will conclude our IPU requirements.

HSBC Continental Europe has signed an agreement to sell its Retail banking operations in France to My Money Group. The transaction remains subject to regulatory approvals and the relevant works council consultation. The parties are aiming to complete the transaction on 1 January 2024.

Geopolitical, economic and regulatory background and outlook

Economic background

Global

Global inflation has continued to recede in the first half of 2023 on the back of base effects on energy prices, relative to last year. However, in many developed countries, the pace of decline has been gradual and inflation is still markedly above the target of central banks. Whilst energy inflation has sharply dropped, trends in other categories have been more mixed. Manufactured goods inflation decreased in many countries due to the easing in global supply chains bottlenecks but food inflation continued to increase due to the lagged impact of higher production costs. Meanwhile, services inflation remained higher than expected, reflecting the impact of tight labour markets and strong wage growth.

Against this backdrop, global central banks have generally continued to raise their policy rates, in order to limit secondary effects. In spite of this tightening, economic activity has remained resilient in most of developed countries, helped by strong labour markets and in some cases, by the support from fiscal policy.

In the US, inflation dropped to 4.0 per cent year-on-year in May 2023, from 6.5 per cent in December 2022 and a peak last year of 9.1 per cent in June 2022. In spite of this decline, the Federal Reserve ('Fed') has raised further its Fed Funds target rate by 75 basis points since the start of the year, from a range of 4.25 – 4.50 per cent to 5.00 – 5.25 per cent. This target rate has been raised by 500 basis points since March 2022. The labour market has remained tight, as reflected by the still low level of unemployment rate (3.7 per cent in May 2023).

The turbulence faced by the US banking system in March 2023, with the situation faced by Silicon Valley Bank ('SVB') and First Republic Bank, did not push the Fed to pause its tightening. US authorities took strong actions to limit risks of contagion from the distressed banks: all depositors from concerned banks have been repaid (even for the share not covered by the FDIC deposit insurance) and the Fed introduced new emergency liquidity lines to limit the risk of bank runs. Following these actions, financial turmoil has been contained.

Whilst the Fed left its policy rate unchanged at its June 2023 meeting, it stressed that the tightening was not yet over and that further rate hikes were likely in the future.

In other developed countries, several central banks have also continued to raise rates in the first half of the year, both in Europe (Sweden, Norway, Switzerland), in Canada and in Asia-Pacific (Australia, New Zealand). In contrast, the Bank of Japan has kept its policy settling unchanged, with a policy rate held at -0.10 per cent and a 10-year yield target maintained at around 0.0 per cent +/-50 basis points. This prudent approach reflects the willingness of the Bank of Japan to wait for more evidence of a sustained rise in wages.

In mainland China, economic activity has markedly improved in the first half of the year thanks to the end of most Covid-19 restrictions since December. Indeed, GDP growth has picked up to 4.5 per cent year-on-year in the first quarter of 2023 from 2.9 per cent in the previous quarter.

That said, leading indicators suggest that this reopening boom may have stalled in the second quarter of 2023. In particular, the recovery in the housing market is still lagging as home transactions and prices have remained sluggish, especially outside of tier-1 cities.

Eurozone

In the Eurozone, inflation has declined to 6.1 per cent year-on-year in May, from 9.2 per cent in December 2022 and a peak last year of 10.6 per cent in October 2022. The decline has largely reflected a drop in energy inflation, fuelled by base effects but also by declines in oil and gas prices over the past few months. The mild winter in Europe and the relatively high level of gas storage at the end of the winter observed in most countries led to a significant decline in gas prices on wholesale markets.

However, inflation has proved to be stickier in other categories, especially for food and services. Given that labour markets remain tight and that wage growth has surged over the recent period due to the usual lag with past inflation, the European Central Bank ('ECB') has kept a hawkish bias in the first half of the year. It has lifted its policy rates by 250 basis points since the start of the year, leading to a cumulated total of 400 basis points since July 2022. It has also started a Quantitative Tightening from March 2023, with a passive reduction of the Asset Purchase Programme ('APP') at an initial pace of EUR 15 billion per month. The ECB announced in June 2023 that it will end all APP reinvestments from July 2023.

Economic activity has been relatively weak in the first quarter of 2023, reflecting the negative impact from higher inflation. Eurozone GDP fell by 0.1 per cent quarter-on-quarter in this quarter after a similar drop in the previous quarter. This means that the Eurozone has faced a technical recession, albeit limited. Fiscal support has cushioned the negative impact of the surge in energy prices as governments have taken several measures to protect households and corporates.

Leading indicators point to a GDP rebound in the second quarter of 2023, led by a buoyant services sector as reopening effects are still in play. Credit data has also started to show signs of deceleration, reflecting the impact of the ECB tightening.

Germany has experienced a significant recession (GDP decline of - 0.3 per cent quarter-on-quarter in the first quarter of 2023 after - 0.5 per cent in the previous quarter). Italy and Spain fared much better and experienced solid GDP growth in average over the same period.

France has not seen a technical recession but is seeing very weak GDP growth (0.2 per cent quarter-on-quarter in the first quarter of 2023, after being flat over the previous quarter). Indeed, private consumption was sluggish over the period, especially for food and energy due to the impact of the surge in inflation. However, services consumption has remained more resilient and net trade has been supportive, in part thanks to the contribution from foreign tourism.

Economic outlook

Inflation and central banks' actions

Global inflation is expected to continue to recede in the coming months, including in Europe. Base effects on energy prices should continue to weigh on inflation in the near term. Later in the year, disinflation should become more driven by food and manufactured goods as producer prices have already started to markedly decelerate in both categories. Services inflation should be stickier given the tight labour markets. Against that backdrop, a return of inflation to 2 per cent in the medium term still remains uncertain in most of developed countries.

The ECB should therefore continue to hike its policy rates through the summer: HSBC economists expect two more rate hikes of 25 basis points in July and September 2023, before a prolonged pause until at least the end of 2024. As a result, the deposit rate would reach a peak of 4 per cent in September 2023. The Bank of England should also remain quite hawkish as inflationary pressures seem even more entrenched in the UK: HSBC economists expect another 50 basis points rate hike in August 2023 (like in June) and a last 25 basis points rate hike in September, before a prolonged pause until at least the end of 2024. The Bank of England policy rate would therefore reach a peak of 5.75 per cent in September 2023.

The Fed is in a better position than the ECB and Bank of England, as inflation risks seem to be less pronounced in the US than in Europe. HSBC economists expect a last 25 basis points rate hike in July, before a prolonged pause. It would be in position to cut rates next year (by a total of 75 basis points and with a first cut in June 2024) due to the expected drop in inflation and the expected loosening in the labour market.

Growth risks

The central scenario of HSBC economists assumes a lack of severe recession for US and Europe. With inflation expected to decline and wage growth expected to hold up, households' purchasing power should continue to improve, setting the scene for a gradual recovery in consumption.

Conversely, the economic impact from the tightening of central banks should intensify. Surveys in US and in Europe are already showing a sharp drop in credit demand, both for households and for corporates. Against that backdrop, housing markets may continue to weaken, especially in countries where loans with floating rates are predominant like Sweden. Business investment may also be negatively impacted by higher rates even if there is ongoing fiscal support in most of developed countries (in particular, higher investments related to energy savings and the green transition).

More generally, financial stability risks related to rising rates will have to be monitored. This includes in particular the situation of regional banks and commercial real estate in the US. In the eurozone, the situation of banks will also have to be watched, especially with the increase in funding costs caused by higher rates and the coming repayment of generous liquidity lines from the ECB (Targeted Longer-Term Refinancing Operations, TLTRO).

The recovery in mainland China is also a source of uncertainty for the outlook. HSBC economists expect the recovery in China to gather more momentum with the firmer policy support from authorities, both on the monetary and the fiscal sides. However, a stimulus similar to that seen in 2009 remains unlikely. As such, the recovery should remain moderate and mainly driven by consumption, which would be less supportive for the rest of the world than for past recoveries.

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 'CRR 3' or the sixth Capital Requirement Directive 'CRD 6') was published by the European Commission ('EC') at the end of 2021, with a proposed implementation date of 1 January 2025. These rules included 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 'trilogue 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 2023, HSBC responded to the Prudential Regulation Authority consultation on the implementation of the 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 Regulatory Technical Standards ('RTS') on the IRRBB Supervisory Outlier Test ('SOT'). This introduced a new definition of what constitutes a large decline of the Net Interest Income to 2.5 per cent of Tier 1 Capital. The EBA is yet to publish the final version of its RTS, replacing the original level of 2.5 per cent to 5 per cent of Tier 1 Capital.

Environmental, social and governance ('ESG') risks

In the EU, regulators continue to publish multiple proposals and discussion papers on ESG matters, including on the extent to which climate risks are captured and dealt with in the prudential framework. These encompass several areas including European Green Bond regulations and securitisation, taxonomy for non-climate environmental objectives, disclosures and sustainability reporting standards, and ESG ratings.

HSBC Continental Europe Consolidated Results

Use of alternative performance measures

HSBC Continental Europe reported results are prepared in accordance with International Financial Reporting Standards ('IFRSs') as detailed in the Condensed Financial Statements starting on page 53. In measuring the company's performance, the financial indicators that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered alternative performance measures.

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

The global business segmental results are presented in accordance with IFRS 8 'Operating Segments'.

Notable items

We separately disclose 'notable items', which are components of our income statement that management would consider as outside the normal course of business and which are generally non-recurring in nature.

The tables on page 15 detail the effects of notable items on each of our global business segments as at 30 June 2023 and 30 June 2022.

Changes to presentation from 1 January 2023

Changes to our reporting framework

On 1 January 2023, HSBC Continental Europe updated its financial reporting framework to no longer report 'adjusted' results, which exclude the impact of significant items. We separately disclose 'notable items', which are components of our income statement that management would consider as outside the normal course of business and which are generally non-recurring in nature.

IFRS 17 'Insurance Contracts'

On 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts'. As required by the standard, the group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. Under IFRS 17 there is no present value of in-force business ('PVIF') asset recognised up front. Instead the measurement of the insurance contract liability takes into account fulfilment cash flows and a contractual service margin representing the unearned profit. In contrast to the group's previous IFRS 4 accounting where profits are recognised up front, under IFRS 17 they are deferred and systematically recognised in revenue as services are provided over the life of the contract. The contractual service margin also includes attributable cost, which had previously been expensed as incurred and which is now incorporated within the insurance liability measurement and recognised over the life of the contract.

The impact of the transition was a reduction of EUR 189 million on the group's 2Q22 reported revenue and a reduction of EUR 130 million to reported profit before tax. The group's total equity at 1 January 2022 decreased by EUR 496 million to EUR 7,180 million on the transition.

For further details, see Note 1.1 (b) in the Universal Registration Document 2022 on the Impact of IFRS 17.

Summary consolidated income statement

	Half-year to[1]	
	30 Jun 2023	30 Jun 2022
	€m	€m
Net interest income	**1,169**	556
Net fee income	**679**	487
Net income from financial instruments held for trading or managed on a fair value basis	**63**	211
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**670**	(1,332)
Changes in fair value of designated debt and related derivatives	**(16)**	(22)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**15**	18
Gains/(losses) on disposals of financial investments	**(5)**	(6)
Gains/(losses) recognised on Assets held for sale[2]	**1,982**	(102)
Insurance finance income/(expense)	**(683)**	1,142
Insurance service result	**63**	51
Other operating income	**14**	26
Total operating income	**3,951**	1,029
Net operating income before change in expected credit losses and other credit impairment charges[3]	**3,951**	1,029
Change in expected credit losses and other credit impairment charges	**(13)**	—
Net operating income	**3,938**	1,029
Total operating expenses	**(1,351)**	(975)
Operating profit/(loss)	**2,587**	54
Share of profit/(loss) in associates and joint ventures	**—**	—
Profit/(loss) before tax	**2,587**	54
Tax expense	**(643)**	(23)
Profit/(loss) for the period	**1,944**	31
– attributable to shareholders of the parent company	**1,933**	31
– attributable to non-controlling interests	**11**	—

1 From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.
2 Includes reversal of loss on disposal of EUR 1.9 billion relating to the planned sale of the retail banking operations in France, recognised in 3Q22, which is no longer classified as held for sale.
3 Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.

Reported performance

Net interest income was EUR 1,169 million, up from EUR 556 million in the first half of 2022. Interest income increased by EUR 2,411 million, from EUR 978 million to EUR 3,389 million due to rising interest rates and the impact of the acquisition of HSBC Germany and HSBC Malta. This was partly offset by an increase in interest expense by EUR 1,798 million, from EUR (422) million in the first half of 2022 to EUR (2,220) million in the first half of 2023, reflecting higher funding costs.

Net fee income was EUR 679 million in the first half of 2023, up from EUR 487 million in the first half of 2022. The increase was mainly driven by the impact of the acquisition of HSBC Germany and HSBC Malta.

Net income from financial instruments held for trading or managed on a fair value basis was EUR 63 million in the first half of 2023, down from EUR 211 million in the first half of 2022. The decrease reflected mark-to-market reductions on derivatives, notably in Insurance Manufacturing, partly offset by increasing interest income on trading positions in Markets and Securities Services and the impact of the acquisition of HSBC Germany and HSBC Malta.

Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss was EUR 670 million in the first half of 2023, up from EUR (1,332) million in the first half of 2022. This reflected the favourable change in the market value of assets held by the insurance company on behalf of its customers.

Changes in fair value of designated debt and related derivatives were EUR (16) million in the first half of 2023, up from EUR (22) million in the first half of 2022.

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss were EUR 15 million in the first half of 2023, compared to EUR 18 million in the first half of 2022.

Losses on disposal of financial investments were EUR (5) million in the first half of 2023, compared to EUR (6) million in the first half of 2022.

Gains recognised on Assets held for sale were EUR 1,982 million in the first half of 2023, reflecting the change in accounting classification related to the sale of the retail banking operations in France. Additionally, the first half of 2022 included losses associated with the sale of our branch operations in Greece, completed in July 2023.

Insurance finance expense was EUR (683) million in the first half of 2023, down from EUR 1,142 million income in the first half of 2022, a decrease of EUR 1,825 million. This reflects the movements in fair value that are attributable to policyholders and offsets favourable movements on the Net income from assets and liabilities of the insurance businesses, including related derivatives, measured at fair value through profit and loss.

Insurance service result was EUR 63 million in the first half of 2023, up from EUR 51 million in the first half of 2022. The increase was due to higher contractual service margin partly due to the impact of the acquisition of HSBC Malta.

Other operating income was EUR 14 million in the first half of 2023, down from EUR 26 million in the first half of 2022.

Net operating income before change in expected credit losses and other credit impairment charges was EUR 3,951 million in the first half of 2023, up from EUR 1,029 million in the first half of 2022. This increase was primarily due to the impact of the change in accounting classification related to the sale of the retail banking operations in France and the favourable impact of the acquisition of HSBC Germany and HSBC Malta. Further increases were driven by the rise of interest rates benefiting Commercial Banking and Global Banking, and increased client activity and interest rate effects in Markets and Securities Services.

Change in expected credit losses and other credit impairment charges was a EUR (13) million provision in the first half of 2023, compared to a net nil provision in the first half of 2022. The change was primarily driven by stage 3 provisions.

Operating expenses amounted to EUR (1,351) million in the first half of 2023, up from with EUR (975) million in the first half of 2022. The increase was mainly due to the impact of the acquisition of HSBC Germany and HSBC Malta, partly offset by lower infrastructure costs including the reversal of impairments on non-financial assets and lower contributions to the Single Resolution Fund.

Profit before tax was EUR 2,587 million in the first half of 2023, up from EUR 54 million for the first half of 2022.

Profit attributable to shareholders of the parent company was EUR 1,933 million in the first half of 2023.

Reported profit/(loss) for the period by global business[1]

	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	Half-year to 30 Jun 2023						
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Net operating income before change in expected credit losses and other credit risk provisions[2]	**2,344**	**713**	**433**	**370**	**8**	**83**	**3,951**
Change in expected credit losses and other credit risk	**11**	**22**	**1**	**(48)**	**1**	**—**	**(13)**
Net operating income	**2,355**	**735**	**434**	**322**	**9**	**83**	**3,938**
Total operating expenses	**(410)**	**(290)**	**(394)**	**(189)**	**(17)**	**(51)**	**(1,351)**
Operating profit/(loss)	**1,945**	**445**	**40**	**133**	**(8)**	**32**	**2,587**
Share of profit/(loss) in associates and joint ventures	**—**	**—**			**—**	**—**	**—**
Reported profit/(loss) before tax	**1,945**	**445**	**40**	**133**	**(8)**	**32**	**2,587**
	Half-year to 30 Jun 2022						
Net operating income before change in expected credit losses and other credit risk provisions	278	410	186	251	27	(123)	1,029
Change in expected credit losses and other credit risk	(1)	11	—	(10)	1	(1)	—
Net operating income	277	421	186	241	28	(124)	1,029
Total operating expenses	(326)	(221)	(201)	(140)	(36)	(51)	(975)
Operating profit/(loss)	(49)	200	(15)	101	(8)	(175)	54
Share of profit in associates and joint ventures	—	—			—	—	—
Reported profit/(loss) before tax	(49)	200	(15)	101	(8)	(175)	54

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *Includes reversal of loss on disposal of EUR 1.9 billion relating to the planned sale of the retail banking operations in France, recognised in 3Q22, which is no longer classified as held for sale.*

Supplementary analysis of notable items by global business

Notable items

	Half year to 30 Jun 2023[1]						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
Net operating income before change in expected credit losses and other credit risk provisions[2]	**1,896**	**—**	**—**	**—**	**—**	**72**	**1,968**
– Disposals, acquisitions and investment	**1,914**	**—**	**—**	**—**	**—**	**72**	**1,986**
– Changes in fair value of financial instruments	**(18)**	**—**	**—**	**—**	**—**	**—**	**(18)**
– Restructuring and other related costs	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Operating expenses	**(22)**	**—**	**—**	**—**	**—**	**(23)**	**(45)**
– Disposals, acquisitions and investment	**(22)**	**—**	**—**	**—**	**—**	**(23)**	**(45)**
– Impairment of non-financial items	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Restructuring and other related costs	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	Half year to 30 Jun 2022						
Net operating income before change in expected credit losses and other credit risk provisions	—	—	7	—	—	(100)	(93)
– Disposals, acquisitions and investment	—	—	—	—	—	(101)	(101)
– Changes in fair value of financial instruments	—	—	7	—	—	—	7
– Restructuring and other related costs	—	—	—	—	—	1	1
Operating expenses	(7)	(6)	—	—	(5)	(57)	(75)
– Disposals, acquisitions and investment	(2)	—	—	—	—	(17)	(19)
– Impairment of non-financial items	—	—	—	—	—	(9)	(9)
– Restructuring and other related costs	(5)	(6)	—	—	(5)	(31)	(47)

1 *Presentation change compared to June 2022 published results where reversed signage to significant items was applied.*
2 *Includes reversal of loss on disposal of EUR 1.9 billion relating to the planned sale of the retail banking operations in France, recognised in 3Q22, which is no longer classified as held for sale.*

Wealth and Personal Banking ('WPB')

Reported profit before tax was EUR 1,945 million in the first half of 2023, up from EUR (49) million in June 2022.

Net operating income before change in expected credit losses and other credit risk provisions was EUR 2,344 million in the first half of 2023, up compared to EUR 278 million in June 2022. This included EUR 1,982 million income due to the change in accounting classification related to the sale of the retail banking operations in France. The remaining variance was a result of Insurance Manufacturing benefiting from higher contractual service margin release and higher net investment revenues due to improved market conditions, as well as the impact of the acquisition of HSBC Germany and HSBC Malta.

Change in expected credit losses and other credit risk was a net release of EUR 11 million compared with a net charge of EUR (1) million in June 2022 reflecting improved portfolio performance.

Operating expenses increased by EUR 84 million to EUR (410) million compared to EUR (326) million in June 2022, primarily due to the impact of the acquisition of HSBC Germany and HSBC Malta.

Loans and advances to customers were EUR 23.3 billion at 30 June 2023, compared to EUR 2.9 at 31 December 2022 coming from the change in accounting classification related to the sale of the retail banking operations in France.

Total Wealth Balances (including third party Assets under Management in Asset Management) were EUR 178.7 billion in June 2023 increasing by EUR 33.5 billion compared to December 2022 coming from the change in accounting classification related to the sale of the retail banking operations in France as well as favourable market performance.

Customers accounts, included in Total Wealth Balances, were EUR 28.4 billion at 30 June 2023 compared to EUR 7.4 billion at 31 December 2022 coming from the change in accounting classification related to the sale of the retail banking operations in France.

Commercial Banking ('CMB')

Reported profit before tax was EUR 445 million in the first half of 2023, an increase of EUR 245 million from EUR 200 million in the first half of 2022.

Net operating income before change in expected credit losses and other credit risk provisions was EUR 713 million in the first half of 2023, an increase of EUR 303 million compared to EUR 410 million in the first half of 2022. The increase was mainly driven by the increase in interest income on deposits due to the rising interest rates environment, including steps taken to manage margins and deposit balances, together with the impact of the acquisition of HSBC Germany and HSBC Malta.

Change in expected credit losses and other credit risk was a net release of EUR 22 million, compared with a net release of EUR 11 million in the first half of 2022 related to the release of provisions on doubtful debts.

Operating expenses increased by EUR 69 million to EUR (290) million, mainly due to the impact of the acquisition of HSBC Germany and HSBC Malta. The increase was partially offset by the reversal of impairments on non-financial assets.

Loans and advances to customers were EUR 25.1 billion at 30 June 2023, increasing by EUR 0.4 billion compared to 31 December 2022.

Customers accounts were EUR 36.4 billion, increasing by EUR 1.5 billion from EUR 34.9 billion at 31 December 2022.

Markets and Securities Services ('MSS')

Reported profit before tax was EUR 40 million in the first half of 2023, compared to a loss of EUR (15) million in the first half of 2022. The EUR 55 million increase in profitability was driven by Global Debt Markets, Securities Financing and Securities Services as well as the favourable impact of the acquisition of HSBC Germany.

Net operating income before change in expected credit losses and other credit risk provisions was EUR 433 million in the first half of 2023, up from EUR 186 million in the first half of 2022. The increase was driven by the impact of the acquisition of HSBC Germany and higher revenue in Global Debt Markets on improved Sovereign Debt market-making activities as well as increased margins and volumes in Securities Financing and Securities Services.

Operating expenses were EUR (394) million in the first half of 2023, an increase of EUR 193 million compared to EUR (201) million in the first half of 2022, driven by the impact of the acquisition of HSBC Germany as well as higher front office and technology costs.

Customer accounts decreased by EUR 4.0 billion compared to December 2022 to reach EUR 16.5 billion driven by a decrease in Securities Services customers deposits.

Global Banking ('GB')

Reported profit before tax was EUR 133 million in the first half of 2023, a increase of EUR 32 million compared to EUR 101 million in the first half of 2022.

Net operating income before change in expected credit losses and other credit risk provisions was EUR 370 million, an increase of EUR 119 million compared to EUR 251 million in the first half of 2022. This was due to the favourable impact of rates on Global Payment Solutions as well as the impact of the acquisition of HSBC Germany.

Change in expected credit losses and other credit risk was a charge of EUR (48) million compared with a charge of EUR (10) million in the first half of 2022 primarily driven by additional stage 3 charges.

Operating expenses were EUR (189) million in the first half of 2023, an increase of EUR 49 million compared to EUR (140) million in the first half of 2022. The increase was mainly due to the impact of the acquisition of HSBC Germany.

Loans and advances to customers were EUR 13.7 billion at 30 June 2023, decreasing by EUR 0.2 billion from December 2022.

Customers accounts were EUR 21.1 billion as at 30 June 2023, increasing by EUR 0.7 billion from December 2022 due to higher volumes in Global Payment Solutions activity.

Global Banking and Markets Other

Reported loss before tax was EUR (8) million in the first half of 2023, compared to a loss of EUR (8) million in the first half of 2022.

Net operating income before change in expected credit losses and other credit risk provisions was EUR 8 million in the first half of 2023, compared to EUR 27 million in the first half of 2022. The decrease was mainly driven by lower costs recoveries compared to prior year.

Operating expenses were EUR (17) million decreasing from EUR (36) million for the first half year of 2022 coming from lower intercompany costs.

Corporate Centre

Reported profit before tax was EUR 32 million in the first half of 2023, compared to a loss of EUR (175) million in the first half of 2022.

Net operating income before change in expected credit losses and other credit risk provisions was EUR 83 million for the first half of 2023, compared with a loss of EUR (123) million in the first half of 2022, driven by the change in accounting classification related to the sale of the retail banking operations in France.The first half of 2022 also included losses of EUR 111 million associated with the sale of our branch operations in Greece, completed in July 2023.

Operating expenses were EUR (51) million for the first half of 2023 in line with the first half of 2022.

Reported external net operating income by country

	Half-year to 30 Jun 2023						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
France	2,189	299	138	235	(2)	84	2,943
EEA Branches	79	385	293	135	10	(1)	901
Other countries	76	29	2	—	—	—	107
Reported external net operating income[1,2]	**2,344**	**713**	**433**	**370**	**8**	**83**	**3,951**
	Half year to 30 Jun 2022						
France	272	288	116	215	20	(23)	888
EEA Branches	6	122	70	36	7	(100)	141
Other countries	—	—	—	—	—	—	—
Reported external net operating income[1,2]	278	410	186	251	27	(123)	1,029

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.*
2 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*

Review of business position

Summary consolidated balance sheet[1]

	30 Jun 2023	31 Dec 2022
	€m	€m
Total assets	**287,404**	279,081
Cash and balances at central banks	58,908	59,734
Trading assets	15,560	13,777
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	12,982	12,170
Derivatives	52,804	59,960
Loans and advances to banks	9,388	7,233
Loans and advances to customers	62,537	42,340
Reverse repurchase agreements – non-trading	26,305	15,374
Financial investments	19,564	19,135
Other assets	28,115	25,597
Assets held for sale	1,241	23,761
Total liabilities	**274,079**	267,577
Deposits by banks	9,033	11,182
Customer accounts	104,183	83,692
Repurchase agreements – non-trading	12,961	6,655
Trading liabilities	21,211	17,509
Financial liabilities designated at fair value	10,647	9,049
Derivatives	49,365	55,726
Debt securities in issue	10,192	6,861
Insurance contract liabilities	20,942	20,439
Other liabilities	34,187	28,609
Liabilities of disposal groups held for sale	1,358	27,855
Total equity	**13,325**	11,504
Total shareholders' equity	13,171	11,358
Non-controlling interests	154	146

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

Balance sheet information

	Wealth and Personal Banking €m	Commercial Banking €m	Markets and Securities Services €m	Global Banking[1] €m	Global Banking and Markets Other €m	Corporate Centre €m	Total €m
As at 30 Jun 2023							
Loans and advances to customers	**23,298**	**25,107**	**488**	**13,745**	**(123)**	**22**	**62,537**
Loans and advances to customers classified as held for sale	**221**	**25**	**—**	**32**	**—**	**—**	**278**
Customers accounts	**28,438**	**36,409**	**16,548**	**21,084**	**1,892**	**(188)**	**104,183**
Customer accounts classified as held for sale	**876**	**228**	**—**	**228**	**1**	**—**	**1,333**
As at 31 Dec 2022							
Loans and advances to customers	2,865	24,757	686	13,965	—	67	42,340
Loans and advances to customers classified as held for sale	21,642	30	—	56	—	—	21,728
Customers accounts	7,372	34,896	20,499	20,402	695	(172)	83,692
Customer accounts classified as held for sale	21,813	259	—	923	—	—	22,995

1 *Loans and advances to customers classified as held for sale and Customer accounts classified as held for sale of the Greece branch reported as at 31 December 2022 under Global Banking and Markets Other restated to Global Banking.*

HSBC Continental Europe's consolidated balance sheet had total assets of EUR 287.4 billion at 30 June 2023, compared to EUR 279.1 billion at 31 December 2022.

Assets

- Derivatives decreased by EUR 7.2 billion mainly as a result of mark-to-market movements on interest rate swaps.
- Loans and advances to customers increased from EUR 42.3 billion to EUR 62.5 billion at 30 June 2023, reflecting the reversal of the accounting classification from held for sale of the retail banking operations in France.
- Reverse repurchase agreements - non-trading increased from EUR 15.4 billion to EUR 26.3 billion at 30 June 2023, reflecting increased lending to clients.

Liabilities

- Customer accounts increased from EUR 83.7 billion to EUR 104.2 billion during the first half of the year. This was mainly driven by the reversal of the accounting classification from liabilities of the disposal group held for sale of the retail banking operations in France.
- Repurchase agreements – non-trading increased from EUR 6.7 billion to EUR 13.0 billion at 30 June 2023, reflecting increased positions with banks.
- Trading liabilities were EUR 21.2 billion at 30 June 2023, up from EUR 17.5 billion at 31 December 2022 coming from volume effect on trading bonds.
- Derivatives decreased by EUR 6.4 billion mainly as a result of mark-to-market movements on interest rate swaps.

Equity

Shareholders' equity stood at EUR 13.3 billion, up from EUR 11.5 billion in December 2022.

The CET1 (Common Equity Tier 1) ratio was 15.3 per cent at 30 June 2023 and the total capital ratio was 20.4 per cent.

Liquidity and funding

At 30 June 2023, the average short-term Liquidity Coverage Ratio ('LCR') was 159 per cent and the average long-term Net Stable Funding Ratio ('NSFR') computed in respect of CRR II guidelines was 138 per cent.

Additional disclosure on Treasury risk is available on page 41.

Average number of persons employed by HSBC Continental Europe

	Half-year to 30 Jun 2023	30 Jun 2022
Wealth and Personal Banking	**4,596**	3,980
Commercial Banking	**1,594**	1,176
Markets & Securities Services	**1,572**	487
Global Banking	**414**	277
Global Banking and Markets Other	**6**	—
Corporate Centre	**19**	13
Support Functions & Others[1]	**3,378**	2,490
Total[2 3]	**11,579**	8,423

1 *Including pre-retirement ('CFCS') and expatriates.*
2 *Permanent contracts ('CDI') and fixed terms contracts ('CDD') within HSBC Continental Europe (including the European branches) and its subsidiaries.*
3 *Including HSBC Malta and HSBC Germany employees from the transfer date at 30 November 2022*

Reconciliation of alternative performance measures

Return on average shareholders’ equity and pre-tax return on average risk-weighted assets

Return on average shareholders’ equity is calculated by dividing profit attributable to the shareholders of the parent company (‘reported results’) by average shareholders’ equity (‘reported equity’) for the period. The adjustment to reported results and reported equity excludes amounts attributable to non-controlling interests.

Pre-tax return on average risk-weighted assets is calculated by dividing profit before tax by average risk-weighted assets for the period. These metrics are calculated on IFRS reported results and include the reversal of loss on disposal of EUR 1.9 billion relating to the planned sale of the retail banking operations in France, recognised in 3Q22, which is no longer classified as held for sale

Return on average shareholders’ equity and pre-tax return on average risk-weighted assets

	Half-year ended[1]	
	30 Jun 2023	30 Jun 2022
	€m	€m
Profit		
Profit/(loss) attributable to the shareholders of the parent company	**1,933**	31
Profit/(loss) before tax	**2,587**	54
Equity		
Average total shareholders’ equity	**12,313**	7,658
Risk-weighted assets	**—**	
Average risk-weighted assets	**58,968**	47,390
Ratio		
Return on average shareholders’ equity (annualised)	**31.4**	0.8
Pre-tax return on average risk-weighted assets	**4.4**	0.1

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

Credit ratings

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

	Standard & Poor’s	Moody’s	Fitch Ratings
Long term – Senior preferred debt	A+	A1	AA -
Outlook	Stable	Stable	Stable
Short-term rating	A-1	P-1	F1+

There were no changes to HSBC Continental Europe’s ratings during the first half of 2023.

Annual review meetings with rating agencies were held in May and June 2023.

Risks

Key highlights

Principal Regulatory Ratios (Unaudited)

	At	
	30 Jun 2023	31 Dec 2022
	%	%
Capital Ratios		
Common equity tier 1	**15.3**	15.3
Total tier 1	**17.8**	17.6
Total capital	**20.4**	20.2
Leverage Ratio	**4.3**	4.3
Liquidity Ratios		
Liquidity Coverage Ratio	**159**	150
Net Stable Funding Ratio	**138**	135

Risk-Weighted Assets – by Risk Type (Unaudited)

	RWAs		Capital required	
	30 June 2023	31 Dec 2022	**30 June 2023**	31 Dec 2022
	€m	€m	**€m**	€m
Credit Risk	**43,060**	43,354	**3,445**	3,468
Counterparty Credit Risk	**6,099**	6,048	**488**	484
Market Risk	**3,798**	3,482	**304**	279
Operational Risk	**5,677**	5,677	**454**	454
Total Risk-Weighted Assets	**58,634**	58,561	**4,691**	4,685

Risk factors

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

Macroeconomic and geopolitical risks

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

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

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

- market developments may depress consumer and business confidence beyond expected levels. Economies may head towards recession and interest rates may continue to rise, which could (among other things) cause asset prices and payment patterns to be adversely affected, leading to greater than expected increases in delinquencies, default rates and expected credit losses ('ECL').
- the Russia-Ukraine war has led to elevated geopolitical instability, and resulted in the US, UK and EU, as well as other countries, imposing significant sanctions and other trade restrictions, without precedent against Russia and Russian government officials and agencies, companies and financial institutions. Russia has implemented certain countermeasures in response;
- the demand for borrowing from creditworthy customers may diminish during periods of recession or where economic activity slows or remains subdued; and
- HSBC Continental Europe's ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption;
- fiscal deficits are likely to increase in both developed and emerging markets as substantial public spending is rolled out to help the private sector and households manage rising prices, against a backdrop of higher interest rates. This could increase the strains on highly leveraged sovereigns, corporates and households. While the average maturity of sovereign debt in developed markets has lengthened, rising interest rates could reduce the affordability of debt and may eventually bring into question its sustainability in some countries.

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

HSBC Continental Europe continually assesses the impact of geopolitical and macroeconomic events.

See also sections ‘Economic background’ on page 8 and ‘Economic Outlook’ on page 9 for additional details.

The Russia-Ukraine war has contributed to a sharp rise in the price of energy and non-energy commodities, as well as a marked slowdown in economic activity.

The steep rise in inflation caused by the rise in commodity prices, and by the previous macroeconomic loosening of by governments in response to the Covid-19 pandemic has forced central banks to raise their policy rates sharply which may create challenges for HSBC Continental Europe's customers.

With inflationary pressures remaining high, the European Central Bank has continued to increase interest rates and economic growth in the eurozone remains slow. It is unlikely that European monetary policy will begin to ease until well into 2024. This may change if inflation moderates more discernibly, or recession concerns come to the fore.

The effects of higher inflation and significant increases in interest rates may include downward customer credit rating migration, which could negatively impact HSBC Continental Europe's risk-weighted assets and capital position, and potential liquidity stress due, among other factors, to increased customer drawdowns. There could be further adverse impacts on HSBC Continental Europe's income due to lower lending and transaction volumes and lower wealth and insurance manufacturing revenue due to equity market volatility and weakness.

The Russia-Ukraine war has continued to exacerbate geopolitical instability which could have significant ramifications for the Group and its customers. HSBC continues to monitor and respond to the sanctions and trade restrictions that have been imposed. The economic impact of the Russia-Ukraine war has reduced as the global economy has largely adapted to the sanctions regime. In particular, Europe is diversifying its energy sources to reduce dependence on Russian energy supplies. Further sanctions, for instance focusing on sanctions evasion by third countries, and Russian countermeasures may adversely impact the Group, its customers and the markets in which the Group operates by creating regulatory, reputational and market risks.

Models have been impacted by the effects of higher inflation and of significant increases in interest rates in many countries. This is particularly the case for IFRS 9 expected credit loss models, traded risk models and models used for asset/liability management. This requires enhanced monitoring, the use of overlays and, in some cases, the recalibration of the models.

Significant uncertainties remain in assessing the duration and impact of the current high inflation and high interest rates environment. There is a risk that the resulting impact on economic activity may last for a prolonged period, which could have a material adverse effect on HSBC Continental Europe's financial condition, results of operations, and prospects and customers.

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

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

Current accounts and savings deposits payable on demand or at short notice form a significant part of the Bank's funding, HSBC Continental Europe places considerable importance on maintaining their stability. For deposits, stability relies on investor confidence in HSBC Continental Europe’s capital strength and liquidity, and on comparable and transparent pricing.

Deposits have historically been a stable source of funding, even in times of economic crisis, but under an extreme scenario this may not be the case.

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

If the Bank were unable to raise funds through deposits and/or in the capital markets, its liquidity position could be adversely affected. In such an extreme scenario, it could be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay maturing debt, or to meet its obligations under committed financing facilities and insurance contracts or to fund new loans or investments. The Bank may need to liquidate unencumbered assets to meet its liabilities.

In a time of reduced liquidity, HSBC Continental Europe may be unable to sell some of its assets, or it may need to sell assets at reduced prices, which in either case could materially adversely affect its business, prospects, financial condition, and results of operations. It is difficult to predict with any degree of accuracy changes in access to funds, and the extent of the potential consequences.

Nevertheless, a number of mitigating actions and procedures – including business actions and participation in the central bank refinancing operations are in place in HSBC Continental Europe, through its Contingency Funding Plan in order to tackle a potential liquidity crisis. This will materially reduce the impact of this risk in case of materialisation.

HSBC Continental Europe will no longer have access to retail deposits and covered bonds after the sale of its retail activities in France and will retain a portfolio of EUR 7 billion home loans on completion. The adjustments to the terms of the sale of the retail activities in France are expected to create an incremental liquidity and funding need that will be absorbed by the transformation of the German subsidiary to a branch and the incremental funding as required.

HSBC Continental Europe undertakes liquidity stress testing to test if its risk appetite is adequate, to validate that it can continue to operate under various stress scenarios that involve an analysis of the relevant probable or severe area of risk to HSBC Continental Europe, and to confirm that the stress assumptions within the Liquidity Coverage Ratio scenario are appropriate and conservative enough for the Group's business.

HSBC Continental Europe continues to rely on its daily internal stress test metric, complementing the Liquidity Coverage Ratio (‘LCR’), for the operational day-to-day management of the Bank’s liquidity position. Moreover, several other different stress tests are run of varying durations and nature the assumptions and results of which are reviewed by the Asset, Liability, and Capital Management Committees (‘ALCO’) and presented through the Internal Liquidity Adequacy Assessment Process to the Board.

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

HSBC Continental Europe businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, equity and bond prices, and the risk that customers act inconsistently with HSBC Continental Europe's business, pricing, and hedging assumptions.

Market pricing can be volatile and ongoing market movements could significantly affect a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk.

Changes in interest rate levels, interbank spreads over official rates and yield curves affect the interest rate spread realised between lending and borrowing costs. The risks of market volatility or changes in margin levels remain high.

Competitive pressures on fixed rates or product terms for existing loans and deposits sometimes restrict ability to change interest rates applying to customers in response to changes in wholesale market rates.

It is difficult to predict with any degree of accuracy changes in market conditions, and such changes could have a material adverse effect on HSBC Continental Europe’s business, financial condition, results of operations and prospects.

See also section ‘Market risk in the first half of 2023’ on page 44.

As at 30 June 2023, Market Risk RWAs were EUR 3.798 billion of which EUR 104 million were under the standardised approach and EUR 3.698 billion under the Internal Model Approach (‘IMA’).

HSBC Continental Europe is subject to financial and non-financial risks associated with environmental, social and governance-related matters, such as climate change risk, nature-related risks, greenwashing and human rights issues. Probability: Likely/Impact: Medium.

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

Climate change can have an impact across HSBC's risk taxonomy through both transition risk, arising from the move to a low-carbon economy, such as through policy, regulatory and technological changes, and physical risk impacts due to increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding.

Focus on climate and environmental risks remains important since the beginning of the year owing to the pace and volume of policy and regulatory changes, on climate risk management, stress testing and scenario analysis and disclosures. These can impact the Bank both directly and indirectly through its customers. Actions to enhance the management of climate-related and environmental risks continue to progress in 2023.

It is currently expected that the following are the most likely ways in which climate risk may materialise for HSBC Continental Europe:

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

HSBC Continental Europe could also face increased reputational, legal and regulatory risks as progress is made towards our net zero ambition, as stakeholders are likely to place greater focus on our actions, investment decisions and disclosures relating to our ambition. 'greenwashing' risks will be faced if the HSBC Continental Europe is perceived to mislead stakeholders regarding its climate strategy, the climate impact of a product or service, or regarding the commitments of customers, including within marketing material and campaigns.

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

HSBC Continental Europe continues to engage with investors, regulators, customers and third parties on nature-related risks to evolve its approach and relies on best practice risk mitigation. While climate risk reporting – and in particular reporting on financed emissions – has improved over the years, focus continues to be on data quality with the implementation of indicators through risk appetite and specific metrics.

Climate risk may also impact model risk as the uncertain impacts of climate change and data limitations pose challenges to creating reliable and accurate model outputs.

Methodologies used may be developed over time in line with market practice and regulations, as well as owing to developments in climate science.

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

With respect to all ESG-related risks, HSBC Continental Europe needs to ensure that its strategy and business model, (including the products and services provided to customers), and risk management framework (including processes to identify, assess and manage the various financial and non-financial risks faced as a result of ESG-related matters) meet regulatory requirements, and stakeholder and market expectations, which continue to evolve significantly and at pace.

Achieving the HSBC Group's strategy with respect to ESG matters, including any ESG-related ambitions, commitments, and targets that the Bank may set, will depend on a number of different factors outside of the Group's direct control, such as technological advances and supportive public policies in the markets where the Group operates. If these external factors and other changes do not occur, or do not occur on a timely basis, the Group (including HSBC Continental Europe) may fail to achieve its ESG related ambitions, commitments and targets which would be a source of reputational, legal or regulatory risks.

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

Prudential, regulatory and legal risks to the business model of HSBC Continental Europe

HSBC Continental Europe's business operates in a rapidly changing legal and regulatory context which increases the risk of non-compliance, at least temporarily. Probability: Likely/Impact: High.

HSBC Continental Europe's businesses are subject to ongoing regulation and the associated regulatory risks, including the effects of changes in the laws, regulations, policies, and voluntary codes of practice in the markets in which it operates. This is particularly the case given the economic impact of the Covid-19 as well as the restrictions put in place by various regulators in the context of the Russia-Ukraine war. Additionally, many of these changes have an effect beyond the country in which they are enacted.

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

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

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

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

- the implementation of the reforms to the Basel III package, which include changes to the approaches to credit risk, market risk, counterparty risk, operational risk, credit valuation adjustment, risk-weighted assets and the application of capital floors;
- the challenges for institutions arising from expanding and increasingly complex regulatory reporting obligations, including high supervisory expectations for data integrity and the governance around regulatory reporting;
- companies increasing regulatory expectations of firms around governance and risk management frameworks, particularly for the management of environmental and climate change, diversity and inclusion and enhanced ESG disclosure to customers and reporting obligations, as well as conflicts of interest, money laundering and financing of terrorism;
- the financial effects of climate and environmental change being incorporated into the global prudential framework, including the transition risks resulting on transitioning to a low carbon economy;
- the increasing focus by regulators, international bodies, organisations and unions on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets;
- reviews of regulatory frameworks applicable to the financial markets, including reforms and other changes to conduct of business, listing, securitisation and derivatives related requirements;
- the focus on technology and digital tools, underpinned by customer protection, including the use of artificial intelligence and digital assets (data, identity etc), financial technology risks, payments and related infrastructure, operational resilience, virtual currencies (including central bank digital currencies and Global Stablecoin) and cybersecurity and the introduction of new and/or enhanced standards in this area;
- implementation of more stringent capital, liquidity and funding requirements, including changes to internal ratings modelling requirements;
- changes in national or supra-national requirements, regarding the ability to offshore or outsource the provision of services and resources or transfer material risk to financial services companies located in other countries, including outsourcing pre-notification requirements introduced by the European Central Bank on 15 November 2022, which could impact our ability to implement globally consistent and efficient operating models;
- financial crime and market abuse standards and high expectations for control frameworks, to ensure companies are adapting to new threats and are protecting customers from cybercrime;
- the application and enforcement of economic sanctions including those with an extra-territorial impact and those arising from geopolitical tensions and particularly the economic restrictions imposed on Russia;
- the increasing regulatory expectations and requirements relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions;
- the implementation of the Single Resolution Board ('SRB') on the Bank's ability to have resolution measures by the end of 2023.

HSBC Continental Europe continues to strengthen its processes and controls over regulatory reporting, including commissioning independent external reviews of various aspects of regulatory reporting. HSBC Continental Europe continues to keep the relevant regulators informed of adverse findings from external and internal audit reviews and the progress in strengthening the control framework.

HSBC Continental Europe and its branches are subject to tax-related risks in the countries in which they are established.
Probability: Likely/Impact: Medium

HSBC Continental Europe and its branches and subsidiaries are subject to the substance and interpretation of tax laws in all countries in which they are established and are subject to routine review and audit by tax authorities in relation thereto. The Bank's interpretation or application of these tax laws may differ from those of the relevant tax authorities and HSBC Continental Europe and its branches and subsidiaries record provisions for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The amounts ultimately paid may differ materially from the amounts set aside in such provisions depending on the ultimate resolution of such matters.

Due to major restructuring in 2022 in HSBC Continental Europe's scope as well as the acquisition of HSBC Bank Malta p.l.c. and HSBC Germany, transfer pricing risk will increase for the Bank.

The current tax challenge in France on the French equities / equity derivatives market is also an area which could have a financial and business impact for banks in France. The French tax administration is denying the exemption of WHT (withholding tax) on French dividends in connection with trading activities involving stock borrowing and lending, equity-linked futures, forwards or other equity derivatives on the ground that the banks may be acting as intermediaries and may be passing the French dividends onto foreign counterparties without applying WHT.

Risks related to HSBC Continental Europe's operations

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

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

HSBC Continental Europe could in some cases face adverse consequences as a result of decisions by management based on the use of models. This can happen when models have been inadequately designed or implemented, when their outcome is misunderstood or used beyond the models' intended use, or by inherent limitations arising from the uncertainty in predicting or estimating future outcomes, for example as a result of random events whose probability was not incorporated into the model design. Such events are made more probable by the uncertain and unprecedented environment created by the Covid-19 crisis and the outbreak of the Russia-Ukraine war.

The risks arising from the use of models could have a material adverse effect on HSBC Continental Europe's business, prospects, financial condition, results of operations, minimum capital requirements and reputation. Regulatory scrutiny and supervisory concerns over banks' use of models is considerable and increasing, particularly the internal models and assumptions used by banks in the calculation of Risk Weighted Assets. In case of significant model deficiencies, regulators may require new models to be developed and/or impose capital add-ons.

For details concerning risk weighted assets as at 30 June 2023 – see table: Overview of risk weighted exposure amounts on page 4 of the HSBC Continental Europe Pillar 3 document. These numbers are for a large part computed using internal models.

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

For details concerning fair values of financial instruments carried at fair value as at 30 June 2023 – see Note 4 on page 58.

The economic consequences of higher global inflation and significant increases in interest rates have impacted the reliability of model outputs, for example in the case of IFRS 9 models used to estimate expected credit losses, as they have been forced to operate beyond the domain for which they have been built and calibrated.

Consequently, IFRS 9 models under the current economic conditions generate outputs that may not accurately assess the actual level of credit quality in all cases. In order to calculate asset values more realistically, compensating controls, such as post-model management adjustments based on expert judgement are required. Such mitigation measures require a significant degree of management judgement and assumptions. There is a risk that future actual results/performance may differ from such judgements and assumptions. Higher interest rates and increased financial market volatility have also impacted the performance of traded risk models, such as the Value at Risk model. This has required increased monitoring of the models and recalibration. In the longer term, the models are likely to require redevelopment to take into account the effects of changes in rates and financial markets.

The adoption of sophisticated models including machine learning/artificial intelligence and technology by both HSBC Continental Europe and the financial services industry could also lead to increased model risk. HSBC Continental Europe's commitment to changing its business activities due to climate, environmental and sustainability challenges will also have an impact on model risk going forward. Models will play an important role in risk management and financial reporting of climate related risks.

The uncertainty of the long-term impacts of climate and environmental change and lack of robust and high quality climate-related data present challenges to creating reliable and accurate model outputs for these models.

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

The resilience of the information and technology infrastructure of HSBC Continental Europe, and its customer databases are crucial to maintaining the service availability of banking applications and processes and to protecting the HSBC brand globally. Technology risks are closely linked with data risks. The proper functioning of its payment systems, financial controls, the risk management framework, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks with the main data processing centres, are critical to HSBC Continental Europe's operations. Critical system failure, any prolonged loss of service or data unavailability or any material breach of data integrity, whether in house or through a supplier, could cause serious damage to the ability of HSBC Continental Europe to serve its clients, lead to breaches of the regulations under which the institution operates and cause long-term damage to its business. This could negatively impact the Bank's reputation with a material adverse effect on its business, prospects, financial condition and results of operations. In the first half of 2023, some IT incidents with third parties were reported to local regulators. See also risk factor: HSBC Continental Europe's operations utilise third party and intra-group suppliers and service providers which may be exposed to risks that HSBC Continental Europe may not be aware of. HSBC is continuing to invest in strengthening the resilience of its technology infrastructure and the further alignment of IT systems across HSBC Continental Europe, ensuring an appropriate and consistent control environment in the IT scope.

Operational losses related to information technology were EUR 0.04 million in the first half of 2023.

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

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

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

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

There have been no material cyber-related breaches that impacted HSBC Continental Europe customers or operations in the first half of 2023 due to controls in place despite numerous attacks being observed on a daily basis. However, the risk remains that future cyber-related attacks, either directly or via one of its suppliers, will have a material adverse effect on HSBC Continental Europe's business, financial condition, results of operations, prospects and reputation.

No operational losses related to cyber risk were reported during the first half of 2023.

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

As part of HSBC Group’s outsourcing strategy, HSBC Continental Europe relies on external and intra-group third parties to supply goods and services. The activities outsourced are diverse and relate, for example, to reporting, risk management and securities custody. Digital Business Services, which covers all Global Businesses and Global Functions, is the function with the highest number of material outsourced services, mainly concerning intra-group services. Internal service providers are located on different continents, for example, in Europe, Asia and North Africa, which helps ensure business continuity between the different locations. Among the branches and subsidiaries of HSBC Continental Europe, France (including the French subsidiaries) is the country that outsources the most material services, followed by Luxembourg and Malta. Regulators have increased their scrutiny regarding the use of third party providers by financial institutions and subcontractors including aspects of how outsourcing decisions and key relationships are managed, particularly for material services. Risks arising from the use of third parties and supply chain, such as risks related to operational incidents, financial stability, cyber-attacks and geopolitical tension are particularly important and challenging to manage. The threat of cyber-attacks on our providers and supply chain remains a concern for HSBC Continental Europe, as it does across the entire financial sector as cyber events may result disruption for customers or impact the data shared.

The inadequate management of third party risk could impact our ability to meet strategic, regulatory and client expectations for all Global Businesses and Global Functions within HSBC Continental Europe.

On the regulatory landscape, in order to meet latest regulatory requirements such as operational continuity in resolution and continue to enhance the current process based on the European Banking Authority guidelines on outsourcing, HSBC Continental Europe has continued to improve in 2023 its third party risk management framework to deal with the risks in a consistent and efficient way within its entities and departments. The Bank aims to work on a third party management system that is more automated with greater consistency (e.g. outsourcing register, materiality assessment, risk assessment) between local regulations of all HSBC Continental Europe branches and subsidiaries, especially in a context of transformation programmes related to the integrations of Malta and Germany into HSBC Continental Europe.

Furthermore, remediation work related to pre-existing third parties are nearly completed. Any outsourcing of a material service needs to be presented in the Third Party Oversight Committee and formally approved by HSBC Continental Europe's Risk Management Meeting and then notified to regulators.

In the first half of 2023, there were a total of five third party incidents that led to personal data breaches that were subsequently reported to local data privacy regulators, mitigating actions have been put in place to avoid reoccurrence.

Risks related to HSBC Continental Europe's governance and internal control

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

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

Within this framework, the strategy in Continental Europe is to focus on customers that value the HSBC network, leveraging its strengths in transaction banking, trade, capital markets and financing, with targeted wealth and personal banking services. Key to achieving HSBC Continental Europe’s strategy is to increase the cross-business and cross-border synergies between the HSBC Group’s different entities across the globe, while ensuring an efficient operating model across HSBC Continental Europe’s operations.

HSBC Continental Europe continues to adapt its operating model, implementing a number of programmes in support of the activities of HSBC Continental Europe while ensuring compliance with regulatory requirements. Please refer to ‘HSBC strategy implemented in Continental Europe' on pages 4-10. The development and implementation of HSBC Continental Europe’s strategy requires difficult, subjective and complex judgements, including forecasts of economic conditions in Continental Europe but also in other parts of the world. HSBC Continental Europe could fail to correctly identify the relevant factors in making decisions as to capital deployment and cost reduction.

Robust management of critical time-sensitive and resource intensive projects is required to effectively deliver HSBC Continental Europe’s strategic priorities. The magnitude and complexity of the transformation underway presents a heightened change execution risk. The cumulative impact of the collective change initiatives in progress within HSBC Continental Europe is significant and has direct impact on HSBC Continental Europe’s employees. The global economic outlook also continues to remain uncertain, particularly with regard to the impact of an economic recession, heightened inflation, changes in legislation and geopolitical tensions, and could therefore impact the way HSBC Continental Europe operates and executes its transformation programmes.

The failure to successfully deliver key strategic actions or other regulatory programmes could have a significant impact on HSBC Continental Europe’s financial condition, profitability and prospects, as well as wider implications on its customers, operational resilience, reputation and regulatory requirements. Execution risk linked to the number of ongoing projects being managed and tracked by a dedicated committee.

The increasing volume of personal data processing activities and of cross-border data transfers may lead to significant data privacy breaches. Probability: Likely/Impact: Medium.

Business processes rely on large volumes of personal data which are increasingly processed in non-EU jurisdictions so as to fulfil operational requirements. Whilst the offshoring of personal data processing activities has notable benefits, it also considerably increases the risk that the personal data in question will be processed in a manner which is incompatible with the high standards imposed by the General Data Protection Regulation and the Schrems II judgment. This issue is all the more relevant as HSBC Continental

Europe is increasingly reliant on the processing activities carried out in India, Sri Lanka or Egypt - which are jurisdictions that do not provide an equivalent level of protection for personal data than the European Union. Whilst no significant incident relating to cross-border personal data processing activities occurred in the first half of 2023, it remains that the increasing volume of personal data flows between EU HSBC entities and non EU jurisdictions generates a Medium residual risk of non-compliance with the protection of personal data.

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

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

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

HSBC Continental Europe did not suffer any significant data-related incidents linked to increasing data volumes or evolving regulations in the first half of 2023.

Over the last few years, the regulatory expectations related to data management and data architecture have increased considerably. The impact of data leaks or non-respect of regulations is evaluated as Medium for HSBC Continental Europe.

Third parties may use HSBC Continental Europe as a conduit for illegal activities without its knowledge. Probability: Likely/Impact: Medium.

HSBC Continental Europe is required to comply with applicable anti-money laundering/combating the financing of terrorism ('AML/CFT') laws, international financial sanctions, and anti-bribery and corruption ('AB&C'), fraud prevention and tax transparency regulations, as well as other local regulatory requirements. To that end, HSBC Continental Europe has adopted HSBC Group policies and procedures which include local legislative and regulatory requirements, such as 'Customer Due Diligence' procedures, and has implemented an internal control and governance system. The aim of this compliance programme is to reduce HSBC's exposure to financial crimes. A major focus of European, US and UK government policy relating to financial institutions in recent years has been preventing, detecting and deterring money laundering and enforcing compliance with US and EU economic sanctions at Group level.

This focus is reflected in part by Bank's agreements with US and UK authorities relating to various investigations regarding past inadequate compliance with AML/CFT and international financial sanction regulations.

These agreements do not preclude additional enforcement actions by bank regulators, public or judicial authorities or private litigation. French regulators remain strongly focused on AML/CFT and, more recently, AB&C, fraud prevention and tax evasion matters within the French banking industry. Furthermore, new anti-corruption requirements have been issued in France pursuant to law no. 2016-1691 of 9 December 2016, known as 'Sapin II'. In addition, the French anti-corruption agency (Agence française anticorruption – AFA) has been established to supervise French companies.

In recent years, there has been a substantial rise in the volume of new regulations has been experienced, impacting the Bank's operational processes, along with increasing levels of compliance risk as regulators and other authorities pursue reviews and investigations into the Bank's activities. In line with the Group's heightened standards and organisation, HSBC Continental Europe has continued to improve its financial crime compliance and regulatory compliance framework.

HSBC Continental Europe continues to implement policies, procedures and controls in order to comply with the sanctions enacted against Russia, in the context of the Russia-Ukraine war, all while abiding by the Group sanctions policy. The Russian sanctions are numerous and complex. HSBC Continental Europe has been is in direct contact with the regulators, and via industry bodies, such as the French Banking Federation, to ensure guidance is received, in order that the appropriate recommendations are put in place to implement these complex measures.

Moreover, in relevant situations, and where permitted by the regulations, HSBC Continental Europe may use third parties to carry out certain identification and verification and Know Your Customer ('KYC') activities in accordance with our AML/CFT, sanctions, AB&C, fraud prevention and tax transparency procedures.

While permitted by the regulations, such outsourcing may not be effective in preventing third parties from committing money laundering and/or the financing of terrorism, corruption, fraud, tax evasion or avoidance, or violating the rules on international financial sanctions. Third parties may use the Bank (or the counterparties concerned) to carry out illegal activity for their own benefit (without the knowledge of the Bank or its counterparties).

Becoming a party to money laundering or being accused of being associated with money laundering could damage HSBC Continental Europe's reputation and give rise to fines, sanctions and/or legal enforcement. Any one of these outcomes could have a material adverse effect on its business, prospects, financial condition and results of operations.

Within HSBC Continental Europe, every month, all transactions are analysed to detect signs of money laundering, terrorism financing tax avoidance, bribery and corruption, fraud and failure to comply with international financial sanctions.

In order to ensure the effectiveness of its policies, mandatory training must be followed by all HSBC Continental Europe employees.

No significant incidents occurred in 2023.

HSBC Continental Europe's risk management measures may not be successful. Probability: Likely/Impact: Medium.

Risk management is an integral part of HSBC Continental Europe's activities. Risk represents the exposure to uncertainty and the resulting variability of return. Specifically, risk equates to the adverse effect on profitability or financial condition arising from different sources of uncertainty, including retail and wholesale credit risk, market risk, non-traded market risk, operational risk, insurance risk, concentration risk, liquidity and funding risk, litigation risk, reputational risk, strategic risk, pension risk and regulatory risk.

To manage its risks, HSBC Continental Europe use a range of Risk tools : a risk map, assessing all risks with a 12 month horizon, the risk appetite statement, which sets out the level and types of risks that HSBC Continental Europe is willing to take in order to achieve its strategic objectives, top risks and emerging risks. A top risk is a risk theme HSBC Continental Europe is currently managing, which if not managed and mitigated has the potential to have a material impact on the Group, the region or Global Businesses of HSBC Continental Europe. An emerging risk is defined as a risk that could have a material impact on the risk profile of the Group, the region or Global Businesses of HSBC Continental Europe, but which is not under active management and is not immediate. The time horizon of the emerging risks is beyond 24 months.

While HSBC Continental Europe employs a broad and diversified set of risk monitoring and mitigation techniques, such methods and the judgements that accompany their application cannot anticipate every unfavourable event or the specifics and timing of every outcome. Failure to manage risks appropriately could have a material adverse effect on the businesses, financial condition, results of operations, prospects, strategy and reputation of the bank.

Risks related to HSBC Continental Europe's business

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

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

The risk is that HSBC Continental Europe's assessment of the impact of the factors that it has identified may be inaccurate, or that it fails to identify relevant factors.

HSBC Continental Europe’s assessment of the creditworthiness of its counterparties may be inaccurate or incorrect. Any failure by HSBC Continental Europe to accurately estimate the ability of its counterparties to meet their obligations may have a material adverse effect on HSBC Continental Europe’s prospects, financial condition and results of operations. The level of any material adverse effect will depend on the number of borrowers involved, the size of the exposures and the degree of any inaccuracy of its estimations.

The review of counterparties under potential stress was reinforced during the Covid-19 crisis, and then the Russia -Ukraine war, with a focus on the early identification of cases showing signs of creditworthiness deterioration.

HSBC Continental Europe has continued to build on the measures introduced in 2020 to safeguard its position, and its customers, in the face of economic uncertainty from the pandemic.

The impact of Covid-19 on the retail portfolio was strongly mitigated by the support measures offered including the moratoria provided by HSBC to circa 2 per cent of the portfolio, with all now resumed normal payment schedules, as well as the loan scheme guaranteed by the government; *Le prêt garanti par l'État (‘PGE’)* for limited exposures.

The Business Banking portfolio in France has been identified as the most vulnerable segment. Therefore an IFRS9 overlay related to the credit risk, based on an estimation of the ECL for this portfolio, was implemented in the third quarter of 2021 and has since been updated on a quarterly basis depending on the economic scenarios.

HSBC Continental Europe believes that the relatively good performance of this portfolio of French SME customers at this point in the cycle remains fragile, and that the financial situation could deteriorate for some of these customers at the time of repayment of their PGE – which is additional debt which will have to be repaid. Repayment of these loans has started at the end of 2022, and HSBC Continental Europe is receiving extension requests in the current economic environment. While it is too early to say whether this will be systemic, vigilance is warranted in this space.

In the context of the Russian-Ukraine war, HSBC Continental Europe has been completing first and second order risk analyses. HSBC Continental Europe has de-risked its first order risk, which was already at a low level prior to the Russia-Ukraine war, and has identified the sectors and individual customers deemed more vulnerable from a second order risk perspective, bearing in mind that this has been an ongoing exercise.

HSBC Continental Europe continues to make use of its risk identification and portfolio management processes, including an early warning system to identify and monitor the most vulnerable customers.

For Wealth and Personal Banking, the Russia-Ukraine war has had only a limited direct impact on the portfolio as direct exposure are very limited. In terms of indirect impacts from the general macroeconomic environment, this has been limited with only very modest amount of loans on variable rate terms at risk of interest rate increases. A stress test on affordability and property price has been undertaken, factoring in increased inflation, and the impact for both of these is considered limited due to the premium customer base and a high penetration rate in Crédit Logement security.

A signed further Memorandum of Understanding was communicated on 14 June 2023 relating to the sale of France Retail Banking activities and as part of this HSBC Continental Europe will retain a portfolio of EUR 7.0 billion of home loans which was originally part of the sale. The impact on borrower credit quality from this is expected to be marginal.

On the wholesale side, HSBC Continental Europe has seen new or increased individual impairments since the third quarter of 2022, some due to the second order risk related to the Russia-Ukraine war, and some being idiosyncratic cases. At this stage, while HSBC Continental Europe does not see any systemic deterioration of the credit quality of its portfolio, the particularly challenging macroeconomic environment calls for heightened scrutiny, especially in terms of refinancing risk.

See also ‘Key developments in the first half of 2023’ on page 34 with respect to the challenging macroeconomic environment for Wholesale Credit Risk and Wealth and Personal Banking.

For details concerning RWAs as at 30 June 2023 – see table: Overview of risk weighted exposure amounts on page 4 of the HSBC Continental Europe Pillar 3 document. Change in expected credit losses and other credit impairment charges was a EUR (13) million provision in the first half of 2023, compared to net nil provision in the first half of 2022.

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

Credit risk is the possibility of losing money due to the inability or, unwillingness, or untimeliness of a counterparty to honour a financial obligation. Whenever there is a chance that a counterparty will not pay an amount of money owed, live up to a financial commitment or honour a claim, there is credit risk. Many types of transactions present credit risk. Counterparty credit risk arises in the case of an indirect exposure via an over-the-counter or secured financing transaction (‘OTC/SFT’): both parties commit to make future payments, the amounts of which are dependent on the market value of an underlying product (for example the exchange rate between the US dollar and the Japanese yen).

HSBC Continental Europe is exposed to counterparties that are involved in virtually all major industries, and HSBC Continental Europe routinely executes transactions with counterparties in financial services, including central clearing counterparties, commercial banks, investment banks, mutual funds, and other institutional clients.

- where bilateral counterparty risk has been mitigated by taking collateral, credit risk for HSBC Continental Europe may remain high if the collateral held cannot be realised or has to be liquidated at prices that are insufficient to recover the full amount of the transaction's exposure. The inability to realise the collateral includes cases arising from a change of law that may influence HSBC Continental Europe's ability to realise a collateral or otherwise enforce contractual rights. Any such adjustments or fair value changes may have a material adverse effect on the financial condition and results of operations of HSBC Continental Europe.
- HSBC Continental Europe's ability to engage in routine transactions to fund operations and manage risks could be materially adversely affected by the actions and commercial soundness of other financial services institutions. Financial institutions are necessarily interdependent because of trading, clearing, counterparty or other relationships. As a consequence, a default by, or decline in market confidence in, individual institutions, or anxiety about the financial services industry generally, can lead to further individual and/or systemic difficulties, defaults and losses.
- mandatory central clearing of OTC derivatives, including under the EU's European Market Infrastructure Regulation, poses risks to HSBC Continental Europe. As a clearing member, HSBC Continental Europe is required to underwrite losses incurred by a Central Counterparty ('CCP') due to the default of other clearing members and their customers. Increased moves towards central clearing creates further interconnectedness between clearing members and customers which could increase rather than reduce HSBC Continental Europe's exposure to systemic risk. At the same time, the ability to manage such risk within HSBC Continental Europe will be reduced because control has been largely outsourced to CCPs, and it is unclear at present how, at a time of stress, regulators and resolution authorities will intervene.
- liquidity and concentration of the underlying market exposure or collateral along with their potential correlation with the credit quality of the counterparty (wrong way risk) are part of the keystones of counterparty credit risk.

HSBC Continental Europe also has credit exposure arising from mitigation, such as credit default swaps and other credit derivatives, each of which is carried at fair value. The risk of default by counterparties to credit default swaps and other credit derivatives used for mitigation affects the fair value of these instruments depending on the valuation and the perceived credit risk of the underlying instrument against which protection has been purchased. Any such adjustment or fair value changes could have a material adverse effect on our business, financial conditions, results of operations and prospects.

As part of the counterparty credit risk management, the turmoil in the banking sector in March 2023 with Silicon Valley Bank ('SVB') going into default has been closely followed and limits have been reviewed accordingly. Stress testing was also a management tool used to revisit the HSBC Continental Europe portfolio. Risk management actions focused on the collateral disputes and the failed payments with strong communication to senior Markets and Securities Services stakeholders.

As at 30 June 2023, Counterparty Risk RWAs were EUR 6.098 billion compared to EUR 6.036 billion as at 31 December 2022. See also RWAs as at 30 June 2023 – table: Overview of risk weighted exposure amounts on page 5 of the HSBC Continental Europe Pillar 3 document.

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

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

While HSBC Continental Europe's ability to execute its planned restructuring has a clear dependency on capacity and capability, the failure of businesses and functions to be adequately and timely resourced could jeopardise its aptitude to efficiently implement required structural changes and achieve strategic targets.

It is key to continue to be able to attract, retain, develop, and motivate employees, senior executive and key talents. Capacity and capability challenges mainly reflect elevated workload and attrition levels, combined with wellbeing concerns resulting from the various transformation activities managed at the same time across the region. The workload arising from the many restructuring projects continues to place pressure on the workforce, with retention challenges alongside increased competition over limited local talent pools often for specific skills and/or expertise. These challenges are heightening people risks. Various retention initiatives have been rolled out to mitigate employee attrition and to ensure the completion of business-as-usual activities as well as the delivery of the transformation projects.

- HSBC Continental Europe's attrition rate has been on a downward trend since December 2022; however, it remains under review in specific businesses and / or areas where it could potentially lead to capacity and capability challenges. As at 31 May 2023, the overall voluntary attrition rate stood at 8.3 per cent, down 0.7 points versus last year and High performers year to date voluntary attrition rate was 1.3 per cent, down 1.2 points versus last year.
- HSBC Group has set itself clear and transparent gender equality targets on the proportion of women in senior executive positions. The initial target was 30 per cent of senior executives to be women by the end of 2020 rising to 35 per cent by 2025. At the end of December 2022 (excluding Malta and Germany), women held 31 per cent of these posts in HSBC Continental Europe. This rate reached 26.72 per cent at the end of the first quarter 2023, and decreased after the integration of Germany into HSBC Continental Europe. In addition, in Q4 2021, HSBC Continental Europe committed to gender parity on the Executive Committee from 2024.

HSBC Continental Europe's insurance businesses are subject to risks relating to insurance claim rates and changes in insurance customer behaviour. Probability: Likely/Impact: High.

HSBC Continental Europe provide various insurance products for customers with whom it has a banking relationship, including several types of life insurance products. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity rates, lapse and surrender rates and, if the policy has a savings element, the performance of assets to support the liabilities. Adverse developments in any of these factors could materially adversely affect HSBC Continental Europe's business, financial condition, results of operations and prospects.

In the current situation, the rise in interest rates may lead to an increase in lapses from HSBC Assurances Vie (France) customers, as the bonus rate provided by the euro fund may be below the rate of return of other savings products. Moreover, the planned sale of the network could also have an adverse impact on the lapses and reduce the level of positive inflows (subscriptions and top up).

In the case of significant lapses with the current level of interest rates HSBC Assurances Vie (France) would have to sell a part of its bond portfolio and thus realise a part of its unrealised losses.

HSBC Life Assurance (Malta) is also exposed to lapse risk and more precisely to a different trend of lapse depending on the different types of products. A rise in lapses in profitable products would reduce the profits expected on the in-force book.

There is also exposure to lower lapses on level cover policies where the premium no longer covers the cost of the risk, in particular for the old policies and those with a long maturity.

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

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

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

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

The main fraud loss incurred by HSBC Continental Europe during first half of 2023 stemmed from a single internal fraud event (EUR 0.698 million over previous years).

Other significant fraud loss typologies include card fraud, payment fraud and lending fraud in retail banking. From a wholesale banking perspective, losses have been minimal. It should be noted that there have been court decisions where HSBC Continental Europe has been found liable for large push payments for which customers were duped by fraudsters. These decisions have been appealed.

Overall, authorised push payment scams in forms of business email compromise and payment redirections are the most prominent across wholesale banking customers. Investment, advance fee, purchase and romance scams are the most common types of scams being used by the fraudsters against retail customers.

There is also a heightened risk of internal fraud due to ongoing transformation projects such as the sale of France retail business as well as the cost of living crisis.

The economic difficulties coupled with inflationary pressures across both developed and emerging markets caused by supply chain disruptions and geo-political developments are expected to place further strain on businesses or see classic fraud schemes become more sophisticated. Measures to contain inflation via interest rate hikes are likely to exacerbate this risk with customers under exceptional pressure and struggling to obtain or maintain access to credit facilities. Customers could misstate their positions or undertake fictitious transactions to continue trading. Based on historical observations, the risk of fraud losses tends to increase following periods of economic downturns, with a lag of six to 12 months. A comprehensive global programme of work was initiated in 2021 to manage the risks related to processes, employees, technology and the corresponding operating model with implementation in 2022 and further embedding to be completed in 2023/2024 to mitigate 1st party lending fraud ('1PLF') risk in wholesale business.

Fraud losses in HSBC Continental Europe have remained low over the past few years for 1PLF risk.

Risks related to HSBC Continental Europe's financial statements

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods could differ from those on which management's estimates are based.

Estimates, judgements, assumptions and models are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

The impacts of revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Accounting policies deemed critical to our results and financial position are those that involve a high degree of uncertainty and have a material impact on the financial statements. In 2022 these included expected credit losses, impairment of goodwill and non-financial assets, measurement of financial instruments, deferred tax assets, provisions, impairment of interests in associates, or in investments in subsidiaries, and non-current assets held for sale.

The measurement of financial instruments measured at fair value can be subjective, in particular where models are used that include unobservable inputs. Given the uncertainty and subjectivity associated with measuring such instruments, future outcomes may differ materially from those assumed using information available at the reporting date.

The effect of these differences on the future results of operations and the future financial position of HSBC Continental Europe may be material. If the judgement, estimates and assumptions HSBC Continental Europe used in preparing its consolidated financial statements are subsequently found to be materially different from those assumed using information available at the reporting date, this could affect our business, prospects, financial condition and results of operations.

The measurement of expected credit losses requires the selection and calibration of complex models and the use of estimates and assumptions to incorporate relevant information about past events, current conditions and forecasts of economic conditions. In addition, significant judgement is involved in determining what is considered to be significant increases in credit risk and what the point of initial recognition is for revolving facilities.

The assessment of whether goodwill and non-financial assets are impaired, and the measurement of any impairment, involves the application of judgement in determining key assumptions, including discount rates, estimated cash flows for the periods for which detailed cash flows are available and projecting the long-term pattern of sustainable cash flows thereafter. The recognition and measurement of deferred tax assets involves significant judgement regarding the probability and sufficiency of future taxable profits, taking into account the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

The recognition and measurement of provisions involve significant judgements due to the high degree of uncertainty in determining whether a present obligation exists, and in estimating the probability and amount of any outflows that may arise. The measurement of financial instruments measured at fair value can be subjective, in particular where models are used that include unobservable inputs.

The assessment of interests in associates for impairment involves significant judgements in determining the value in use, in particular estimating the present value of cash flows expected to arise from continuing to hold the investment, based on a number of management assumptions.

The assessment of the held for sale criteria involves significant judgement with regards to classifying a sale as highly probable and the anticipated timing for the sale to complete. The calculation of the fair value less cost to sell involves valuation techniques with observable and unobservable market data, and the calculation of any related impairment loss is subject to accounting estimates.

Risk overview/Top and emerging risks

HSBC Continental Europe continuously identifies, assesses, manages and monitors risks. This process, which is informed by an assessment of its risk factors and the results of stress testing, gives rise to the classification of certain financial and non-financial risks.

Changes in the assessment of these risks may result in adjustments to the bank's business strategy and, potentially, its risk appetite.

Top risks are those that may have a material impact on the financial results, reputation or business model of the Bank. An Emerging Risk is defined as a risk that could have a material impact on the risk profile of the HSBC Continental Europe but is not under active management and is not immediate. If these risks were to occur, they could have a material effect on the Group.

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

Risk		Description
Externally driven		
Geopolitical and macroeconomic risks	▲	HSBC Continental Europe continually assesses the impact of macroeconomic and geopolitical events on its business and exposures and take steps to mitigate them, where required and possible, to help ensure that HSBC Continental Europe remains within its risk appetite. Higher inflation and rising interest rates will impact the macro economic situation and affect the HSBC Continental Europe portfolio.
Cyber threats and unauthorised access to systems	▲	HSBC Continental Europe relies on technology and is exposed to the risk of service disruption through technology failures or malicious activity by inside or external threats. The recent geopolitical scenarios have created the need for enhanced monitoring. HSBC Continental Europe operates a continuous improvement programme to enhance our technology operations and to counter a hostile and fast evolving cyber threat environment.
Evolving regulatory environment risk	▶	The regulatory and compliance risk environment remains complex, given heightened geopolitical tensions and consequent macroeconomic impacts. There remains increased regulatory focus on operational and cyber resilience, economic impacts (including on customers), ESG matters, crypto-asset-related risks, sanctions, and wider anti-money laundering controls. These, alongside other regulatory priorities, may result in change requirements across the Group in the short to medium term. HSBC Continental Europe continues to monitor regulatory and wider financial industry developments closely and engage with regulators as appropriate.
Financial crime risk	▶	HSBC Continental Europe continues to support its customers against a backdrop of complex geopolitical, socioeconomic and technological challenges, not least the war in Ukraine. HSBC is monitoring their direct and indirect impacts on the Group and using its sanctions compliance capabilities to respond to the new regulations, noting the challenges that arise in implementing the unprecedented volume and diverse set of sanctions and trade restrictions.
Environmental, social and governance ('ESG') risks	▶	HSBC Continental Europe is subject to ESG risks relating to climate change, nature, greenwashing, and human rights. This risk remained at a high level owing to the pace and volume of regulatory developments, in Europe in particular and stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters.
Digitalisation and technological advances	▶	HSBC Continental Europe monitors advances in technology to understand how changes may impact our customers and business. HSBC Continental Europe closely monitors and assesses the potential for resulting financial crime and the impact on payment transparency and architecture.
Internally driven		
Risks arising from the receipt of services from third parties	▲	HSBC Continental Europe procures services and goods from a range of third parties. It is critical that HSBC Continental Europe have appropriate risk management policies, processes and practices in place for the selection and governance of third parties and their supply networks, particularly for key activities that could affect its operational resilience. Any deficiency in the management of risks associated with its third parties could affect its ability to support its customers and meet regulatory expectations.
Execution risks	▲	Failure to effectively prioritise, manage and /or deliver strategic change impacts HSBC Continental Europe's ability to grow, strengthen its capabilities, digitise at scale, and play its part in the transition to a more sustainable world. Given the scale, complexity and pace of strategic change, HSBC Continental Europe must monitor, manage and oversee change execution risks to ensure its change portfolios and initiatives continue to deliver the right outcomes for its customers, employees, investors and communities.
Model risks	▲	HSBC Continental Europe continues to strengthen its oversight of models and model risk controls. HSBC Continental Europe is redeveloping its capital models to reflect the evolving regulatory requirements, and in some cases the potential effects from the Covid-19 pandemic. Ibor models impacted by the switch to new alternative risk-free rates have been redeveloped and are to be put into production to comply with the Ibor transition. HSBC Continental Europe has enhanced the oversight of models used in financial reporting processes.
Data risks	▲	HSBC Continental Europe uses data to serve its customers and run its internal operations, often in real-time within digital journeys and processes. If this data is not accurate and timely, the ability of HSBC Continental Europe to serve its customers, operate with resilience, or meet regulatory requirements could be impacted. HSBC Continental Europe must ensure the confidentiality of data and comply with the growing number of laws and regulations governing data privacy and the cross-border movement of data. The management of IT risks and the associated controls must be improved. A remediation programme is being put in place.
People risks	▶	HSBC Continental Europe's workforce capacity and capability requirements are monitored in line with the published growth and transformation strategies. Measures to support the people in the current complex context are in place. People risks that may arise due to business transformation are closely monitored to help manage business change sensitively and support employees.The businesses, functions and geographies are exposed to potential capacity and capability risks resulting from employees' retention and talent availability, as well as potential Employment Practices and Relations risk resulting from potential compliance gaps with employment laws and regulations. Heightened demand for talent in key labour markets, job uncertainty and elevated workloads led to increased attrition and attraction challenges, and continuing pressure on employees. HSBC Continental Europe monitors hiring activities and levels of employee attrition, and each business and function has plans in place to aim to ensure effective workforce forecasting to meet business demands.

Risk		Description
Internally driven		
IT systems infrastructure and operational resilience	▲	HSBC Continental Europe continues to monitor and improve its IT systems and network resilience, both on our premises and on the Cloud, to minimise service disruption, improve customer experience and comply with regulatory obligations. To support the business strategy, HSBC Continental Europe strengthened its end to end management, build and deployment controls and system monitoring capabilities. HSBC Continental Europe is seeing an increased demand on customer support centers, on business operations as a result of the current economic environment and there is additional focus on operational resilience.

▲ Risk has increased during the first half of 2023

▶ Risk remains at the same level during the first half of 2023

Managing risks

HSBC Continental Europe recognises that the primary role of risk management is to protect its customers, business, colleagues, shareholders and the communities that it serves, while ensuring that HSBC Continental Europe is able to support its strategy and provide sustainable growth. This is supported through its three lines of defence model.

All our people are responsible for the management of risk, with the ultimate accountability residing with the Board. The Risk function is headed by the Chief Risk Officer, is part of the second line of defence, and is independent from commercial activities.

HSBC Continental Europe is focused upon implementation of its business strategy for which the active management of execution risks is essential.

HSBC Continental Europe uses a comprehensive risk management framework across the organisation and across all risk types, underpinned by the HSBC Group's culture and values. This framework outlines the key principles, policies and practices that the Bank employs in managing material risks, both financial and non-financial.

The framework fosters continual monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to identifying, evaluating and managing the risks HSBC Continental Europe accepts and incurs in its activities.

HSBC Continental Europe continues to focus on improving the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with its Board and key stakeholders.

Risk appetite

HSBC Continental Europe's defines its desired forward-looking risk profile, via its risk appetite and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels. Risk appetite supports senior management in allocating capital, funding and liquidity optimally to finance growth, while monitoring exposure to non-financial risks.

Capital and liquidity remain at the core of HSBC Continental Europe's risk appetite framework, with forward-looking statements informed by stress testing.

Ibor transition

The publication of sterling, Swiss franc, euro and Japanese yen Libor interest rate benchmarks, as well as Euro Overnight Index Average ('Eonia'), and two US dollar Libor settings ceased from the end of 2021.

HSBC Continental Europe's Ibor programme has pursued the implementation in the bank's contract templates of the EURIBOR fallback clauses recommended by the EUR RFR Working Group in May 2021, implementation which had started in 2021.

For certain products and contracts, HSBC remains reliant on the continued support of agents and third parties, but the programme continues to progress all contracts requiring transition. Additionally, following the UK FCA's consultation in November 2022 proposing that one-month, three-month and six-month US dollar 'synthetic' Libor will be published up to 30 September 2024, HSBC will continue to work with clients to support them through transition of their products in the intervening period, and to monitor contracts, potentially more challenging to transition, that may need to rely upon legislative solutions.

Financial instruments impacted by Ibor reform

	Financial instruments yet to transition to alternative	
	USD Libor	Others[1]
At 30 Jun 2023	**€m**	**€m**
Non-derivative financial assets[2]		
Loans and advances to customers	**1,114**	**18**
Financial investments	**—**	**—**
Others	**7**	**—**
Total non-derivative financial assets	**1,121**	**18**
Non-derivative financial liabilities		
Others	**303**	**—**
Total non-derivative financial liabilities	**303**	**—**
Derivative notional contract amount		
Foreign exchange	**18,176**	**1,462**
Interest rate	**74,279**	**1,389**
Others	**89**	**—**
Total derivative notional contract amount	**92,544**	**2,851**
At 31 Dec 2022		
Non-derivative financial assets[2]		
Loans and advances to customers	1,874	22
Financial investments	—	—
Others	6	—
Total non-derivative financial assets	1,880	22
Non-derivative financial liabilities		
Others	309	—
Total non-derivative financial liabilities	309	—
Derivative notional contract amount		
Foreign exchange	19,207	418
Interest rate	160,830	1,945
Others	133	—
Total derivative notional contract amount	180,170	2,363

1 *Comprises financial instruments referencing other significant demising benchmark rates yet to transition to alternative benchmarks: Canadian dollar offered rate ('CDOR'), GBP libor, Mexican Interbank equilibrium interest rate ('TIIE')). An announcement was made by the South African regulator during the first half of 2023 on the cessation of the Johannesburg interbank average rate ('JIBAR'). Therefore, Jibar is also included in 'Others' during the current period.*

2 *Gross carrying amount excluding allowances for expected credit losses.*

The amounts in the above table relate to the group's main operating entities where we have material exposures impacted by Ibor reform, including in France and Germany. The amounts provide an indication of the extent of the group's exposure to the Ibor benchmarks that are due to be replaced. Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- US dollar Libor contracts that include no further transition risk, i.e. those covered by industry fallback clauses effective 3 July 2023 or contracts transitioned to an alternative rate but fixed on USD Libor until their first interest rate fixing post US dollar Libor cessation;
- have a contractual maturity date beyond the date by which the reference interest rate benchmark is expected to cease; and
- are recognised on the group's consolidated balance sheet.

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

HSBC Continental Europe has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting. The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue' and 'Deposits by banks'. The notional value of the derivatives impacted by the Ibor reform, including those designated in hedge accounting relationships, is disclosed above in the section 'Financial instruments impacted by Ibor reform'.

Hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

The notional amounts of interest rate derivatives designated in hedge accounting relationships do not represent the extent of the risk exposure managed by the group but they are expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 amendments and are shown in the table below. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below:

Hedging instrument impacted by Ibor reform

	Hedging instrument				
	Impacted by Ibor reform			Not Impacted by Ibor reform	Notional Amount[2]
	EUR[1]	USD	Total		
	€m	€m	€m	€m	€m
Fair Value Hedges	**2,785**	**—**	**2,785**	**6,755**	**9,539**
Cash Flow Hedges	**10,212**	**—**	**10,212**	**10,710**	**20,922**
At 30 Jun 2023	**12,997**	**—**	**12,997**	**17,465**	**30,461**
Fair Value Hedges	2,950	249	3,199	6,164	9,363
Cash Flow Hedges	8,305	—	8,305	8,035	16,340
At 31 Dec 2022	11,255	249	11,504	14,199	25,703

1 *The notional contract amounts of euro interest rate derivatives impacted by Ibor reform mainly comprise hedges with Euribor benchmark.*
2 *The notional contract amounts of interest rate derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date and they do not represent amounts at risk.*

Key developments in the first half of 2023

In the first half of 2023, HSBC Continental Europe continued to undertake a number of initiatives to enhance its approach to the management of risk and enhance the control environment, taking into account the external events: the evolution of the geopolitical environment, the uncertain macroeconomic environment – inflation, higher interest rates, slower GDP growth, and internal events mainly related to the Bank's transformation programme, including the new conditions for the sale of retail banking in France, as part of which the Bank will have to keep on its balance sheet a portfolio of real estate loans of EUR 7 billion and for which the HSBC Continental Europe control and risk management frameworks will continue to be applied.

In addition, the changes implemented in 2022 continued as described below:

- the improvement of risk governance decision making, particularly with regard to the governance of treasury risk to ensure senior management has appropriate oversight and visibility of macroeconomic trends around inflation and interest rates.
- the development of emerging risk identification and management, including the objective of using forward-looking indicators to support our analysis.
- the strengthening of and consistency within HSBC Continental Europe of the third party risk policy and processes to improve control and oversight of its material third parties that are key to maintaining our operational resilience, and to meet new and evolving regulatory requirements.
- the enhancement of the climate risk programme to embed climate considerations throughout the firm, including updating the scope of the HSBC programme to cover all risk types, expanding the scope of climate related training and developing new climate risk metrics to monitor and manage exposures and the implementation of a dedicated governance organisation for Climate and ESG risks.
- HSBC Continental Europe has consolidated its various financial crime policies into a single financial crime policy driven by simplification and consistency. The bank also deployed industry leading technology and advanced analytics capabilities to improve its ability to identify suspicious activities and prevent financial crime.
- the improvement of the effectiveness of the financial crime controls, the refreshment of the financial crime policies, ensuring they remain up-to-date and address changing and emerging risks, and the monitoring of regulatory changes.
- the setting of two new forums have been set up: one dedicated to third party providers to enhance monitoring of our providers and another one related to Climate and ESG risks, to ensure the embedding of climate and ESG risk culture throughout the bank.
- the strengthening of the risk management practices with the implementation within the second line of defence of a local central HSBC Continental Europe permanent control team, performing independent reviews focused on Medium and Low risks and complementing existing Group/Regional Assurance team activities. This approach guarantees a risk-based approach via independent controls on non-financial risks. The consolidated permanent control plan for the first half of 2023 was carried out within the risk appetite limit as defined for HSBC Continental Europe.

With respect to the challenging macroeconomic environment:

- Wholesale credit risk:

Despite the overarching macro-economic and geo-political challenges, driven by prolonged high inflation, rising interest rates and the second order impacts of the Russia/Ukraine war (whilst first order risk was reduced to quasi nil in 2022), the portfolio remains stable and resilient with no material concentration risk. HSBC Continental Europe has not seen any major Probability of Default trends yet, however, with the prevailing market conditions there are also some early warning signs. Furthermore, certain parts of the book have still yet to face the full impact of higher rates and reduced consumer spend capacity hence we remain cautious from an origination and risk appetite perspective.

With regards to events affecting Credit Suisse, as well as SVB and other US Banks, a review of HSBC Continental Europe's limits and exposures to the regional US banks was completed leading to limit resizing and/or reductions where appropriate even if HSBC Continental Europe does not have any direct exposure to SVB. Regarding Credit Suisse and UBS, no credit losses were incurred in HSBC Continental Europe, and exposures to both banks are low and well structured. These issues have somewhat abated since.

There is a continued focus on liquidity and refinancing risk, building on the previous comprehensive review of credit portfolios in the context of higher rates and inflationary pressures. A recent refresh of the refinancing risk exercise (performed following the Credit Suisse/SVB related events) has identified that many clients have been able to access capital markets and/or refinance in the bank markets. However, there are some challenging refinancing situations within the portfolio.

In terms of portfolio management activity, a revised Single Name Concentration Framework based on Credit Risk Ratings, and which is an 'Exposure' led approach, was launched in the first quarter of 2023 and the Industry Risk Appetite Framework went live in the second quarter of 2023. A number of sector reviews have been performed as per our usual process, and individual deep dives continue to be performed. Those exercises feed our Worry Watch Monitor process, which allow a close monitoring of the most vulnerable exposures.

This proactive review process will continue throughout 2023.

In terms of sectors, Wholesale Credit Risk is particularly vigilant regarding automotive, construction, real estate, consumer goods, and tourism & leisure.

– Wealth and Personal Banking:

Wealth and Personal Banking performed an inflation based stress on customer affordability within the portfolio with the projected risk from this deemed limited. An Expected Credit Losses ('ECL') overlay is in place in recognition of this risk and the criteria used for this stress test is a trigger for entering the monitor list in the early warning system framework. Furthermore, an analysis using the latest EBA stress testing scenario (12 per cent property price decline) has been undertaken. Whilst this stress analysis does not cover all extreme financial crisis possibilities, it does suggest that in this scenario a limited impact would be observed due to the high level of Crédit Logement security within the portfolio and restricted volume of high loan to value lending.

Additionally, the important level of transformation within HSBC Continental Europe, and the risks associated with this, continues to be under active management to help facilitate the strategy changes within Europe.

– Counterparty credit risk:

As part of the counterparty credit risk management, the turmoil in the banking sector in March 2023 with SVB going into default has been closely followed and limits have been reviewed accordingly. Stress testing was also a management tool used to revisit the HSBC Continental Europe portfolio. Risk management actions focused on the collateral disputes and the failed payments with strong communication to senior Markets and Securities Services stakeholders.

– Market risk:

With regards to market risks management thorough analyses were performed following the U.S regional banking sector turmoil initiated by the situation of the SVB and its default. The U.S situation and its potential contagion to the European markets was closely followed especially after a confidence crisis led to the takeover of Credit Suisse. From a market risk standpoint, the stubborn inflation and economic indicators have also been an important point of attention with their direct effects on market levels, whether interest rates, stock prices or volatility. The risk management framework was used through dedicated tools and metrics, such as Stress Test, to assess potential impacts of adverse scenarios.

Credit Risk

Credit risk profile

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract.

It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and credit derivatives, and from the holdings of debt securities.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2023. A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' of the *Universal Registration Document 2022*.

Summary of credit risk

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

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate. Management judgemental adjustments are used to address late-breaking events, data and model limitations, model deficiencies and expert credit judgements.

Methodology

Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to HSBC's top and emerging risks.

Three of these scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the Downside 1 and Upside scenarios represent the tails of the distribution which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Upside and Downside 1 scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes.

The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent narrative-driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios.

The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10 per cent probability. The Downside 2 is constructed with a 5 per cent probability. The Central scenario is assigned the remaining 75 per cent. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may depart from this probability-based scenario weighting approach when the economic outlook is determined to be particularly uncertain and risks are elevated.

In light of ongoing risks, such as inflationary or geopolitical, management deviated from this probability weighting in the first semester of 2023, and shifted 5 per cent weight from upside to downside scenario.

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

	At 30 Jun 2023		At 31 Dec 2022	
	Gross carrying/ nominal amount	**Provision for ECL[1]**	Gross carrying/ nominal amount	Provision for ECL[1]
	€m	**€m**	€m	€m
Loans and advances to customers at amortised cost	**63,376**	**(839)**	43,170	(830)
– personal[2]	**22,930**	**(122)**	2,607	(48)
– corporate and commercial	**34,910**	**(709)**	35,630	(773)
– non-bank financial institutions	**5,536**	**(8)**	4,933	(9)
Loans and advances to banks at amortised cost	**9,390**	**(2)**	7,233	—
Other financial assets measured at amortised cost	**111,978**	**—**	98,716	—
– cash and balances at central banks	**58,908**	**—**	59,734	—
– items in the course of collection from other banks	**199**	**—**	476	—
– reverse repurchase agreements – non trading	**26,305**	**—**	15,374	—
– financial investments[3]	**1,374**	**—**	1,156	—
– prepayments, accrued income and other assets[4]	**25,192**	**—**	21,976	—
Assets held for sale[2,8]	**1,370**	**(52)**	25,785	(144)
Total gross carrying amount on balance sheet	**186,114**	**(893)**	174,904	(974)
Loans and other credit-related commitments	**111,656**	**(24)**	104,727	(39)
– personal	**1,038**	**—**	1,372	—
– corporate and commercial	**51,095**	**(23)**	55,815	(37)
– financial	**59,523**	**(1)**	47,540	(2)
Financial guarantees[5]	**4,650**	**(8)**	4,722	(9)
– personal	**16**	**—**	24	—
– corporate and commercial	**2,819**	**(8)**	2,918	(9)
– financial	**1,815**	**—**	1,780	—
Total nominal amount off-balance sheet[6]	**116,306**	**(32)**	109,449	(48)
Total nominal amount on-balance sheet and off-balance sheet	**302,420**	**(925)**	284,353	(1,022)

	Fair value	**Memorandum allowance for ECL[7]**	Fair value	Memorandum allowance for ECL[7]
	€m	**€m**	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**18,130**	**(5)**	17,917	(10)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Of which EUR 16 843 million guaranteed by Crédit Logement as at 30 June 2023 (31 December 2022: EUR 17,468 million,being classified as held for sale).*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 48 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
4 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 48 includes both financial and non-financial assets.*
5 *Excludes performance guarantee contracts to which the impairment requirements of IFRS 9 are not applied.*
6 *Represents the maximum amount at risk should the contracts be fully drawn down and customers default.*
7 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*
8 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 140 (in Universal registration document and Annual Financial Report 2022).*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 30 June 2023

	Gross carrying/nominal amount[1]					Provision for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost	54,084	7,312	1,978	2	63,376	(43)	(88)	(708)	—	(839)	0.1	1.2	35.8	—	1.3
– personal[3]	20,503	2,140	287	—	22,930	(12)	(20)	(90)	—	(122)	0.1	0.9	31.4	—	0.5
– corporate and commercial	28,342	4,890	1,676	2	34,910	(29)	(64)	(616)	—	(709)	0.1	1.3	36.8	—	2.0
– non-bank financial institutions	5,239	282	15	—	5,536	(2)	(4)	(2)	—	(8)	—	1.4	13.3	—	0.1
Loans and advances to banks at amortised cost	9,382	8	—	—	9,390	(2)	—	—	—	(2)	—	—	—	—	—
Other financial assets measured at amortised cost	111,941	26	11	—	111,978	—	—	—	—	—	—	—	—	—	—
Assets held for sale	1,235	42	93	—	1,370	(1)	(2)	(49)	—	(52)	—	4.8	52.7	—	3.8
Loan and other credit-related commitments	108,499	3,009	148	—	111,656	(6)	(10)	(8)	—	(24)	—	0.3	5.4	—	—
– personal	1,005	31	2	—	1,038	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	48,251	2,727	117	—	51,095	(6)	(9)	(8)	—	(23)	—	0.3	6.8	—	—
– financial	59,243	251	29	—	59,523	—	(1)	—	—	(1)	—	0.4	—	—	—
Financial guarantees[4]	4,251	342	57	—	4,650	(1)	(1)	(6)	—	(8)	—	0.3	10.5	—	0.2
– personal	15	1	—	—	16	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	2,429	333	57	—	2,819	(1)	(1)	(6)	—	(8)	—	0.3	10.5	—	0.3
– financial	1,807	8	—	—	1,815	—	—	—	—	—	—	—	—	—	—
At 30 Jun 2023	**289,392**	**10,739**	**2,287**	**2**	**302,420**	**(53)**	**(101)**	**(771)**	**—**	**(925)**	**—**	**0.9**	**33.7**	**—**	**0.3**

1 *Represents the maximum amount at risk should the contracts be fully drawn down and customers default.*
2 *Purchased or originated credit-impaired ('POCI').*
3 *Of which EUR 16 843million guaranteed by Crédit Logement as at 30 June 2023.*
4 *Excludes performance guarantee contracts to which the impairment requirements of IFRS 9 are not applied.*

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

The table below presents the breakdown of stage 2 financial assets between those less than 30 and more than 30 days past due and therefore presents those financial assets classified as stage 2 due to ageing (30 days past due) and those identified at an earlier stage (less than 30 days past due).

Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 days past due analysis at 30 June 2023

	Gross carrying amount			Provision for ECL			ECL coverage %		
		of which:	*of which:*		*of which:*	*of which:*		*of which:*	*of which:*
	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	7,312	*125*	*320*	(88)	*(2)*	*(1)*	1.2	*1.6*	*0.3*
– personal	2,140	*34*	*10*	(20)	*(1)*	*(1)*	0.9	*2.9*	*10.0*
– corporate and commercial	4,890	*91*	*286*	(64)	*(1)*	—	1.3	*1.1*	—
– non-bank financial institutions	282	—	*24*	(4)	—	—	1.4	—	—
Loans and advances to banks at amortised cost	8	—	*1*	—	—	—	—	—	—
Other financial assets measured at amortised cost	26	—	—	—	—	—	—	—	—
Assets held for sale	42	—	*4*	(2)	—	*(2)*	4.8	—	*50.0*

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2022

	Gross carrying/nominal amount[1]					Provision for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI 2	Total	Stage 1	Stage 2	Stage 3	POCI 2	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost	34,520	6,939	1,708	3	43,170	(34)	(123)	(673)	—	(830)	0.1	1.8	39.4	—	1.9
– personal	2,355	149	103	—	2,607	(7)	(9)	(32)	—	(48)	0.3	6.0	31.1	—	1.8
– corporate and commercial	27,481	6,560	1,586	3	35,630	(26)	(107)	(640)	—	(773)	0.1	1.6	40.4	—	2.2
– non-bank financial institutions	4,684	230	19	—	4,933	(1)	(7)	(1)	—	(9)	—	3.0	5.3	—	0.2
Loans and advances to banks at amortised cost	6,953	280	—	—	7,233	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	98,666	39	11	—	98,716	—	—	—	—	—	—	—	—	—	—
Assets Held for sale[3,4]	23,669	1,788	328	—	25,785	(6)	(18)	(120)	—	(144)	—	(1.0)	(36.6)	—	(0.6)
Loan and other credit-related commitments	98,326	6,262	139	—	104,727	(4)	(18)	(17)	—	(39)	—	0.3	12.2	—	—
– personal	1,260	109	3	—	1,372	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	50,260	5,420	135	—	55,815	(4)	(16)	(17)	—	(37)	—	0.3	12.6	—	0.1
– financial	46,806	733	1	—	47,540	—	(2)	—	—	(2)	—	0.3	—	—	—
Financial guarantees[5]	4,221	446	55	—	4,722	(1)	(1)	(7)	—	(9)	—	0.2	12.7	—	0.2
– personal	22	1	1	—	24	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	2,447	417	54	—	2,918	(1)	(1)	(7)	—	(9)	—	0.2	13.0	—	0.3
– financial	1,752	28	—	—	1,780	—	—	—	—	—	—	—	—	—	—
31 Dec 2022	266,355	15,754	2,241	3	284,353	(45)	(160)	(817)	—	(1,022)	—	1.0	36.5	—	0.4

1 *Represents the maximum amount at risk should the contracts be fully drawn down and customers default.*
2 *Purchased or originated credit-impaired ('POCI').*
3 *Of which EUR 17 468 million guaranteed by Crédit Logement as at 31 December 2022.*
4 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 140 (in Universal registration document and Annual Financial Report 2022).*
5 *Excludes performance guarantee contracts to which the impairment requirements of IFRS 9 are not applied.*

Stage 2 days past due analysis at 31 December 2022

	Gross carrying amount			Provision for ECL			ECL coverage %		
	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost	6,939	*74*	*362*	(123)	*(1)*	*(1)*	1.8	*1.4*	*0.3*
– personal	149	*19*	*4*	(9)	*(1)*	*—*	6.0	*5.3*	*—*
– corporate and commercial	6,560	*55*	*330*	(107)	*—*	*(1)*	1.6	*—*	*0.3*
– non-bank financial institutions	230	*—*	*28*	(7)	*—*	*—*	3.0	*—*	*—*
Loans and advances to banks at amortised cost	280	*—*	*9*	—	*—*	*—*	—	*—*	*—*
Other financial assets measured at amortised cost[3]	39	*—*	*—*	—	*—*	*—*	—	*—*	*—*
Assets held for sale[2,3]	1,788	*28*	*14*	(18)	*(1)*	*(2)*	1.0	*(3.6)*	*(14.3)*

1 *Days past due ('DPD'). Up-to-date accounts in stage 2 are not shown in amounts presented above.*
2 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 140 (in Universal registration document and Annual Financial Report 2022).*
3 *Balance reported in Past due buckets reclassified from Other financial assets measured at amortised cost to reflect actual past due balance in assets held for sale.*

Stage 2 Decomposition at 30 June 2023

The following table presents the stage 2 decomposition of gross carrying amount and allowances for ECL for loans and advances to customers. It shows the reason why an exposure moved into stage 2, and thus presented a significant increase in credit risk since origination.

The Quantitative classification indicates when PD exceeds the defined quantitative thresholds for retail and wholesale exposures, as set out in Note 1.2 'Summary of significant accounting policies', on page 185 of the *2022 Universal Registration Document*.

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

For further details on our approach to the assessment of significant increase in credit risk, see Note 1.2 'Summary of significant accounting policies' on page 185 of the *Universal Registration Document 2022*.

Stage 2 Decomposition at 30 June 2023

	Gross carrying value				Provision for ECL				
Loans and advances to customers	**Personal**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	**Personal**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	**ECL Coverage % Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**%**
Quantitative[1]	**2,132**	**2,178**	**117**	**4,427**	**(19)**	**(29)**	**(1)**	**(49)**	**1.1**
Qualitative	**2**	**2,429**	**142**	**2,573**	**—**	**(35)**	**(3)**	**(38)**	**1.5**
30 days past due backstop	**6**	**283**	**23**	**312**	**(1)**	**—**	**—**	**(1)**	**0.3**
Total stage 2	**2,140**	**4,890**	**282**	**7,312**	**(20)**	**(64)**	**(4)**	**(88)**	**1.2**

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

Stage 2 Decomposition at 31 December 2022

	Gross carrying value				Provision for ECL				
Loans and advances to customers	Personal	Corporate and commercial	Non-bank financial institutions	Total	Personal	Corporate and commercial	Non-bank financial institutions	Total	ECL Coverage % Total
	€m	€m	€m	€m	€m	€m	€m	€m	%
Quantitative[1]	114	2,608	77	2,799	(6)	(66)	(1)	(73)	2.6
Qualitative	35	3,704	135	3,874	(2)	(42)	(5)	(49)	1.3
30 days past due backstop	1	248	17	266	—	(1)	—	(1)	0.4
Total stage 2	150	6,560	229	6,939	(8)	(109)	(6)	(123)	1.8

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

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2023	**105,394**	**(40)**	**17,618**	**(142)**	**1,902**	**(697)**	**2**	**—**	**124,916**	**(879)**
Transfers of financial instruments	1,629	(24)	(2,079)	54	450	(30)	—	—	—	—
– transfers from stage 1 to stage 2	(2,853)	2	2,853	(2)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	4,687	(26)	(4,687)	26	—	—	—	—	—	—
– transfers to stage 3	(212)	—	(281)	31	493	(31)	—	—	—	—
– transfers from stage 3	7	—	36	(1)	(43)	1	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	19	—	(4)	—	—	—	—	—	15
New financial assets originated or purchased	11,882	(9)	—	—	—	—	—	—	11,882	(9)
Asset derecognised (including final repayments)	(10,185)	1	(1,140)	4	(106)	23	—	—	(11,431)	28
Changes to risk parameters – further lending/repayments	(4,221)	4	(2,172)	(29)	(167)	17	—	—	(6,560)	(8)
Changes to risk parameters – credit quality	—	1	—	33	—	(87)	—	—	—	(53)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(116)	116	—	—	(116)	116
Credit-related modifications that resulted in derecognition	—	—	—	—	—	—	—	—	—	—
Foreign exchange	63	—	5	—	(6)	1	—	—	62	1
Others[2]	20,578	(6)	2,128	(16)	225	(64)	—	—	22,931	(86)
Assets held for sale	—	—	—	—	—	—	—	—	—	—
At 30 Jun 2023	**125,140**	**(54)**	**14,360**	**(100)**	**2,182**	**(721)**	**2**	**—**	**141,684**	**(875)**
ECL release/(charge) for the period		16		4		(47)		—		(27)
Add: Recoveries										1
Add/(less): Others										5
Total ECL release/(charge) for the period										**(21)**

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

	At 30 Jun 2023		
	Gross carrying/ nominal amount	Provision for ECL	ECL release/ (charge)
	€m	€m	€m
As above	**141,684**	**(875)**	**(21)**
Other financial assets measured at amortised cost	111,978	—	—
Assets held for sale	1,370	(52)	—
Non-trading reverse purchase agreement commitments	47,388	—	—
Performance and other guarantees not considered for IFRS 9			3
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	**302,420**	**(927)**	**(18)**
Debt instruments measured at FVOCI	18,130	(5)	5
Total Provision for ECL/total income statement Provision for ECL charge for the period	**320,550**	**(932)**	**(13)**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes re-classification from held for sale related to retail banking operations in France.*

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2022[2]	118,330	(53)	10,314	(110)	1,366	(657)	2	(2)	130,012	(822)
Transfers of financial instruments	(15,903)	(17)	15,201	33	702	(16)	—	—	—	—
– transfers from stage 1 to stage 2	(19,861)	9	19,861	(9)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	4,249	(27)	(4,249)	27	—	—	—	—	—	—
– transfers to stage 3	(328)	2	(461)	18	789	(20)	—	—	—	—
– transfers from stage 3	37	(1)	50	(3)	(87)	4	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	21	—	(14)	—	(12)	—	—	—	(5)
New financial assets originated or purchased	36,662	(14)	—	—	—	—	—	—	36,662	(14)
Asset derecognised (including final repayments)	(16,864)	2	(2,093)	11	(391)	122	—	—	(19,348)	135
Changes to risk parameters – further lending/repayments	(19,239)	17	(7,983)	3	24	(37)	—	1	(27,198)	(16)
Changes to risk parameters – credit quality	—	16	—	(42)	—	(211)	—	1	—	(236)
Changes to model used for the provision for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(93)	93	—	—	(93)	93
Credit-related modifications that resulted in derecognition	—	—	—	—	(1)	1	—	—	(1)	1
Foreign exchange	23	—	(3)	—	(6)	1	—	—	14	1
Others[3]	24,030	(18)	4,612	(47)	618	(105)	—	—	29,260	(170)
Assets classified as held for sale[4]	(21,645)	6	(2,430)	24	(317)	124	—	—	(24,392)	154
At 31 Dec 2022	105,394	(40)	17,618	(142)	1,902	(697)	2	—	124,916	(879)
ECL release/(charge) for the period		42		(42)		(138)		2		(136)
Add: Recoveries										2
Add/(less): Others										9
Total ECL release/(charge) for the period										(125)

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

	At 31 Dec 2022		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	124,916	(879)	(125)
Other financial assets measured at amortised cost	98,775	—	—
Assets held for sale[5]	25,785	(144)	—
Non-trading reverse purchase agreement commitments	34,942	—	—
Performance and other guarantees to which IFRS 9 is not applied			6
Summary of financial instruments to which the impairment requirements of IFRS 9 are applied/Summary consolidated income statement	284,418	(1,023)	(119)
Debt instruments measured at FVOCI	17,917	(10)	(4)
Total allowance for ECL/total income statement ECL charge for the period	302,335	(1,033)	(123)

1 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.
2 The classification of gross carrying/nominal amount by stage as at 31 December 2022 has been re-presented to reflect the transfer from stage 1 to stage 2 of EUR 3.7 billion in balances, following the application of post-model adjustments.
3 Includes contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022.
4 Includes re-classification to held for sale related to retail banking operations in France and branch operations in Greece.
5 For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 140 (in Universal registration document and Annual Financial Report 2022).

Treasury risk

Overview

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

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

Approach and policy

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

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

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

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

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

Governance

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

Capital

Overview

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

A summary of HSBC Continental Europe's policies and practices regarding capital management, measurement and allocation is provided on page 144 of the *Universal Registration Document* 2022.

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 the 575/2013 Regulation, 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').

Regulatory developments

Refer to Regulatory Environment section on page 9.

Key capital numbers (Unaudited)

	At		
	30 Jun 2023 €m	31 Dec 2022 €m	30 Jun 2022 €m
Available own funds (amounts)			
Common Equity Tier 1 ('CET1') capital	**8,998**	8,970	6,557
Tier 1 capital	**10,443**	10,320	7,554
Total capital	**11,986**	11,806	8,960
Risk-weighted exposure amounts			
Total risk-weighted exposure amount	**58,634**	58,561	47,893
Capital ratios (as a percentage of risk-weighted exposure amount) (%)			
Common Equity Tier 1 ratio	**15.3**	15.3	13.7
Tier 1 ratio	**17.8**	17.6	15.8
Total capital ratio	**20.4**	20.2	18.7
Leverage ratio			
Total exposure measure	**242,826**	238,144	191,759
Leverage ratio (%)	**4.3**	4.3	3.9
Liquidity Coverage Ratio ('LCR')[1]			
Total high-quality liquid assets ('HQLA') (Weighted value-average)	**66,031**	52,471	48,352
Cash outflows – Total weighted value	**64,977**	50,304	44,410
Cash inflows – Total weighted value	**23,486**	15,511	11,003
Total net cash outflows (adjusted value)	**41,491**	34,793	33,407
Liquidity coverage ratio (%)	**159**	150	145
Net Stable Funding Ratio ('NSFR')[1]			
Total available stable funding	**95,258**	87,799	82,069
Total required stable funding	**69,181**	64,882	63,760
NSFR ratio (%)	**138**	135	129

1 These values and ratios are disclosed as averages in line with CRR reporting requirements.

RWA movement by global business by key driver (Unaudited)

	Total RWA €m
RWAs at 1 January 2023	**58,561**
Asset size	**(832)**
Asset quality	**(170)**
Model updates	**—**
Methodology and policy	**1,069**
Foreign exchange movement	**6**
Total RWA movement	**73**
RWAs at 30 June 2023	**58,634**
RWAs by global business	
Markets & Securities Services	**11,220**
Global Banking	**11,663**
Global Banking and Markets Others	**1,001**
Commercial Banking	**22,984**
Wealth and Personal Banking	**9,281**
Corporate Centre	**2,485**

Composition of regulatory own funds (Unaudited)

	At	
	30 Jun 2023	31 Dec 2022
	€m	€m
Common equity tier 1 ('CET1') capital: instruments and reserves		
Capital instruments and the related share premium accounts	**6,327**	6,327
– share premium account	**5,264**	5,264
Retained earnings	**2,176**	3,863
Accumulated other comprehensive income (and other reserves)	**1,351**	1,416
Transitional adjustments due to additional minority interests	**82**	89
Independently reviewed interim net profits net of any foreseeable charge or dividend	**—**	(965)
Common equity tier 1 capital before regulatory adjustments	**9,936**	10,730
Total regulatory adjustments to Common Equity Tier 1 ('CET1')	**(938)**	(1,760)
Common Equity Tier 1 ('CET1') capital	**8,998**	8,970
Additional tier 1 capital before regulatory adjustments	**1,445**	1,446
Total regulatory adjustments to Additional Tier 1 ('AT1') capital	—	(96)
Additional Tier 1 ('AT1') capital	**1,445**	1,350
Tier 1 capital (T1 = CET1 + AT1)	**10,443**	10,320
Tier 2 capital before regulatory adjustments	**2,003**	2,023
Total regulatory adjustments to tier 2 capital	**(460)**	(537)
Tier 2 capital	**1,543**	1,486
Total capital (TC = T1 + T2)	**11,986**	11,806
Total risk-weighted assets	**58,634**	58,561

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.

Risk-Weighted Assets – by Risk Type (Unaudited)

	RWAs		Capital required	
	Jun 2023	Dec 2022	**Jun 2023**	Dec 2022
	€m	€m	**€m**	€m
Credit Risk	**43,060**	43,354	**3,445**	3,468
Counterparty Credit Risk	**6,099**	6,048	**488**	484
Market Risk	**3,798**	3,482	**304**	279
Operational Risk	**5,677**	5,677	**454**	454
Total Risk-Weighted Assets	**58,634**	58,561	**4,691**	4,685

RWA movement by global business by key driver (Unaudited)

	Total RWA	
	1 Jan 2023 to 30 Jun 2023	1 Jan 2022 to 31 Dec 2022
	€m	€m
RWAs at 1 January 2023	**58,561**	47,795
Asset size	**(832)**	12,312
Asset quality	**(170)**	54
Model updates	**—**	(1,600)
Methodology and policy	**1,069**	—
Foreign exchange movement	**6**	—
Total RWA movement	**73**	10,761
RWAs at 30 June 2023	**58,634**	58,561
RWAs by global business*		
Markets & Securities Services	**11,220**	10,425
Global Banking	**11,663**	12,280
Global Banking and Markets Others	**1,001**	1,919
Commercial Banking	**22,984**	22,118
Wealth and Personal Banking	**9,281**	9,426
Corporate Centre	**2,485**	2,393

Leverage Ratio at 30 June (Unaudited)

	At	
	30 Jun 2023	31 Dec 2022
	€m	€m
Tier 1 Capital	**10,443**	10,320
Leverage Exposure	**242,826**	238,144
Leverage ratio %	**4.3**	4.3

Interest-rate risks in the banking book

Overview

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

Governance

Within the Treasury function, Asset, Liability and Capital Management ('ALCM') is responsible for managing non-traded interest rate risk, maintaining the transfer pricing framework and informing the Asset and Liability Committee ('ALCO') of the overall banking book interest rate risk exposure. Banking book interest rate positions may be transferred to be managed by Markets Treasury, within the market risk limits approved during the semi-annual limits reviews.

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

Measurement of interest rate risk in the Banking Book

Interest rates risk in the banking book is measured mainly through nominal gap, sensitivity of Net Interest Income ('NII') and sensitivity of Economic Value of Equity ('EVE').

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

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

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

For the modelling of our retail banking activities in France that will be sold, ALCM assumes 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.

Market risks

Market risks in the first half of 2023

The uncertainty in financial markets remained elevated in first half of 2023 due to concerns around stability of the banking sector, sticky inflation in most of the developed markets and geopolitical risk around Ukraine. Financial market experienced volatility on the back of three defaults from US regional banking sector. In spite of US Government intervention, the banking crisis spread to Europe, with Credit Suisse bought by UBS in an emergency arrangement brokered by the Swiss regulator after Credit Suisse share price plunged by 25 per cent. The US dollar index depreciated against euro and pound sterling as European Central Bank and Bank of England continued increasing policy rate with a hawkish tone to tame inflation while Federal Reserve seen closer to the end of policy rate hiking cycle. Government bond Yield curve inverted across US and Europe indicating chances of heightened recession because of continue policy rate tightening. Credit and equity markets rallied on the back of decreasing inflation trend from the last year's peak and resilient corporate profitability.

Value at Risk (‘VaR’)

Trading portfolios

Value at Risk of the trading portfolio

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

HBCE Total trading VaR by risk type

	Foreign exchange	Interest rate	Equity	Credit spread	Commodity	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m	€m
Balance at 30 Jun	**0.77**	**4.90**	**2.22**	**1.45**	**0.02**	**(3.12)**	**6.24**
Average	**0.98**	**5.73**	**2.20**	**1.12**	**0.05**	**(3.54)**	**6.48**
Maximum	**1.92**	**9.39**	**3.87**	**2.02**	**0.22**	**(6.58)**	**9.75**
Balance at 31 Dec 2022	1.21	6.45	2.07	0.60	0.07	(4.37)	6.03
Average	1.35	5.27	2.27	0.73	0.08	(3.98)	5.64
Maximum	1.70	6.84	2.68	0.89	0.30	(4.71)	6.93

Non-trading portfolios

Value at Risk of the non-trading portfolio

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

HBCE Total non-trading VaR by risk type

	Foreign exchange	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2023	**0.02**	**9.64**	**0.03**	**11.25**	**(4.96)**	**15.97**
Average	**0.01**	**8.35**	**0.03**	**9.38**	**(4.32)**	**13.44**
Maximum	**0.02**	**12.02**	**0.10**	**14.93**	**(7.37)**	**18.03**
Balance at 31 Dec 2022	—	8.51	0.03	7.23	(4.06)	11.71
Average	—	8.66	0.03	7.36	(4.39)	11.66
Maximum	0.04	9.34	0.04	7.77	(5.04)	13.03

Condensed financial statements

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Consolidated income statement

		Half-year to[1]	
		30 Jun 2023	30 Jun 2022
	Notes	**€m**	€m
Net interest income		**1,169**	556
– interest income		**3,389**	978
– interest expense		**(2,220)**	(422)
Net fee income	*3*	**679**	487
– fee income		**943**	650
– fee expense		**(264)**	(163)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		**63**	211
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss		**670**	(1,332)
Changes in fair value of designated debt and related derivatives		**(16)**	(22)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss		**15**	18
Gains less losses from financial investments		**(5)**	(6)
Insurance finance income/(expense)		**(683)**	1,142
Insurance service result		**63**	51
– Insurance service revenue		**124**	105
– Insurance service expense		**(61)**	(54)
Gains/(losses) recognised on Assets held for sale[2]		**1,982**	(102)
Other operating income		**14**	26
Total operating income		**3,951**	1,029
Net operating income before change in expected credit losses and other credit impairment charges		**3,951**	1,029
Change in expected credit losses and other credit impairment charges		**(13)**	—
Net operating income		**3,938**	1,029
Employee compensation and benefits		**(610)**	(415)
General and administrative expenses		**(725)**	(517)
Depreciation and impairment of property, plant and equipment and right of use assets		**(7)**	(31)
Amortisation and impairment of intangible assets and goodwill impairment		**(9)**	(12)
Total operating expenses		**(1,351)**	(975)
Operating profit/(loss)		**2,587**	54
Share of profit/(loss) in associates and joint ventures		**—**	—
Profit/(loss) before tax		**2,587**	54
Tax expense		**(643)**	(23)
Profit/(loss) for the period		**1,944**	31
Attributable to:			
– shareholders of the parent company		**1,933**	31
– non-controlling interests		**11**	—

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *Includes reversal of loss on disposal of EUR 1.9 billion relating to the planned sale of the retail banking operations in France, recognised in 3Q22, which is no longer classified as held for sale.*

Consolidated statement of comprehensive income

	Half-year to[1]	
	30 Jun 2023	30 Jun 2022
	€m	€m
Profit/(loss) for the period	**1,944**	31
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income:	**112**	(1,343)
– fair value gains/(losses)	**159**	(1,816)
– fair value losses/(gains) transferred to the income statement on disposal	**—**	6
– expected credit losses recognised in income statement	**(5)**	4
– income taxes	**(42)**	463
Cash flow hedges:	**(25)**	(72)
– fair value gains/(losses)	**(35)**	(95)
– fair value gains/(losses) reclassified to the income statement	**2**	(3)
– income taxes	**8**	26
Finance income/(expenses) from insurance contracts	**(94)**	1,250
– before income taxes	**(127)**	1,685
– income taxes	**33**	(435)
Exchange differences and other	**8**	6
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability:	**(16)**	21
– before income taxes	**(23)**	25
– income taxes	**7**	(4)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:	**(55)**	212
– before income taxes	**(75)**	288
– income taxes	**20**	(76)
Equity instruments designated at fair value through other comprehensive income:	**(1)**	(1)
– fair value gains/(losses)	**(1)**	(1)
– income taxes	**—**	—
Other comprehensive income/(expense) for the period, net of tax	**(71)**	73
Total comprehensive income/(expense) for the period	**1,873**	104
Attributable to:		
– shareholders of the parent company	**1,861**	104
– non-controlling interests	**12**	—

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

Consolidated balance sheet

		At[1]	
		30 Jun 2023	31 Dec 2022
	Notes	**€m**	€m
Assets			
Cash and balances at central banks		**58,908**	59,734
Items in the course of collection from other banks		**199**	476
Trading assets		**15,560**	13,777
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**12,982**	12,170
Derivatives		**52,804**	59,960
Loans and advances to banks		**9,388**	7,233
Loans and advances to customers		**62,537**	42,340
Reverse repurchase agreements – non-trading		**26,305**	15,374
Financial investments		**19,564**	19,135
Asset held for sale	10	**1,241**	23,761
Prepayments, accrued income and other assets		**26,924**	23,548
Current tax assets		**224**	330
Interests in associates and joint ventures		**—**	—
Goodwill and intangible assets	6	**147**	140
Deferred tax assets		**621**	1,103
Total assets		**287,404**	279,081
Liabilities			
Deposits by banks		**9,033**	11,182
Customer accounts		**104,183**	83,692
Repurchase agreements – non-trading		**12,961**	6,655
Items in the course of transmission to other banks		**306**	528
Trading liabilities		**21,211**	17,509
Financial liabilities designated at fair value		**10,647**	9,049
Derivatives		**49,365**	55,726
Debt securities in issue		**10,192**	6,861
Accruals, deferred income and other liabilities		**31,485**	25,656
Liabilities of disposal groups held for sale	10	**1,358**	27,855
Current tax liabilities		**143**	113
Insurance contract liabilities		**20,942**	20,439
Provisions	7	**236**	286
Deferred tax liabilities		**4**	3
Subordinated liabilities		**2,013**	2,023
Total liabilities		**274,079**	267,577
Equity			
Called up share capital		**1,062**	1,062
Share premium account		**5,264**	5,264
Other equity instruments	2	**1,433**	1,433
Other reserves		**1,272**	1,261
Retained earnings		**4,140**	2,338
Total Shareholders' equity		**13,171**	11,358
Non-controlling interests		**154**	146
Total equity		**13,325**	11,504
Total liabilities and equity		**287,404**	279,081

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

Consolidated statement of cash flows

	Half-year to[1]	
	30 Jun 2023	30 Jun 2022
	€m	€m
Profit/(loss) before tax	**2,587**	54
Adjustments for non-cash items:		
– depreciation, amortisation and impairment of property plant and equipment, right of use and intangibles	**16**	43
– net gain from investing activities	**(1,979)**	108
– share of profits in associates and joint ventures	**—**	—
– change in expected credit losses gross of recoveries and other credit impairment changes	**13**	7
– provisions including pensions	**4**	23
– share-based payment expense	**7**	4
– other non-cash items included in profit before tax	**(11)**	6
– elimination of exchange differences	**58**	(402)
– Changes in operating assets[3]	**(4,052)**	(1,910)
– Changes in operating liabilities	**5,670**	4,819
– tax paid	**—**	(17)
Net cash from operating activities[3]	**2,313**	2,735
Purchase of financial investments	**(3,123)**	(2,229)
Proceeds from the sale and maturity of financial investments	**2,716**	1,238
Net cash flow from the purchase and sale of property, plant and equipment	**(5)**	(13)
Net investment in intangible assets	**(16)**	(1)
Net cash flow on disposal/acquisition of subsidiaries, businesses, associates and joint ventures	**—**	—
Net cash from investing activities	**(428)**	(1,005)
Issue of ordinary share capital and other equity instruments	**—**	948
Subordinated loan capital repaid	**(10)**	—
Dividends paid to shareholders of the parent company	**(48)**	(17)
Dividends paid to non-controlling interests	**(4)**	—
Net cash from financing activities	**(62)**	931
Net increase/(decrease) in cash and cash equivalents	**1,823**	2,661
Cash and cash equivalents at beginning of the period[2,3]	**88,749**	56,999
Exchange differences in respect of cash and cash equivalents	**(20)**	159
Cash and cash equivalents at the end of the period[2,3]	**90,552**	59,819

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *Includes balances of Greece branch reclassified as held for sale.*
3 *Following a classification error in the consolidated statement of cash flow in June 2022, Cash and cash equivalents at the end of the period i.e., 30 Jun 2022, at the beginning of the period i.e., 1 Jan 2023 and Changes in operating activities for the period 30 June 2022 have been represented by EUR (3,2) billion. This representation does not impact the presentation of the balance sheet.*

Consolidated statement of changes in equity[1]

	Called-up share capital and share premium	Other equity instru-ments	Retained earnings	Other reserves: Financial assets at FVOCI Reserve	Other reserves: Cash flow hedg-ing reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger and other reserves	Other reserves: Insurance finance reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2023	6,326	1,433	2,338	(1,136)	(231)	(13)	1,592	1,049	11,358	146	11,504
Profit/(loss) for the period	—	—	1,933	—	—	—	—	—	1,933	11	1,944
Other comprehensive income (net of tax)	—	—	(71)	110	(25)	8	—	(94)	(72)	1	(71)
– debt instruments at fair value through other comprehensive income	—	—	—	111	—	—	—	—	111	1	112
– equity instruments designated at fair value through other comprehensive income	—	—	—	(1)	—	—	—	—	(1)	—	(1)
– cash flow hedges	—	—	—	—	(25)	—	—	—	(25)	—	(25)
– re-measurement of defined benefit asset/liability	—	—	(16)	—	—	—	—	—	(16)	—	(16)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(55)	—	—	—	—	—	(55)	—	(55)
– 'Insurance finance income/ (expense) recognised in other comprehensive income								(94)	(94)	—	(94)
– exchange differences	—	—	—	—	—	8	—	—	8	—	8
Total comprehensive income for the period	—	—	1,862	110	(25)	8	—	(94)	1,861	12	1,873
Capital securities issued during the period	—	—	—	—	—	—	—	—	—	—	—
Dividends to shareholders[2]	—	—	(48)	—	—	—	—	—	(48)	(4)	(52)
Net impact of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	—	—
Other movements	—	—	(12)	—	—	—	12	—	—	—	—
Total Others	—	—	(60)	—	—	—	12	—	(48)	(4)	(52)
At 30 Jun 2023	6,326	1,433	4,140	(1,026)	(256)	(5)	1,604	955	13,171	154	13,325

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

2 *Dividends corresponds to the coupon payment on other equity instrument (additional tier 1 capital) amounting to EUR 48 million.*

Consolidated statement of changes in equity[1] (continued)

				Other reserves							
	Called-up share capital and share premium	Other equity instru-ments	Retained earnings[3]	Financial assets at FVOCI Reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves	Insurance finance reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2021	2,628	750	2,636	45	37	(21)	1,592	—	7,667	9	7,676
IFRS17 Transition	—	—	(508)	624	—	—	—	(612)	(496)	—	(496)
At 1 Jan 2022	2,628	750	2,128	669	37	(21)	1,592	(612)	7,171	9	7,180
Profit/(loss) for the period	—	—	31	—	—	—	—	—	31	—	31
Other comprehensive income (net of tax)	—	—	233	(1,344)	(72)	6	—	1,250	73	—	73
– debt instruments at fair value through other comprehensive income	—	—	—	(1,343)	—	—	—	—	(1,343)	—	(1,343)
– equity instruments designated at fair value through other comprehensive income	—	—	—	(1)	—	—	—	—	(1)	—	(1)
– cash flow hedges	—	—	—	—	(72)	—	—	—	(72)	—	(72)
– re-measurement of defined benefit asset/liability	—	—	21	—	—	—	—	—	21	—	21
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	212	—	—	—	—	—	212	—	212
– 'Insurance finance income/ (expense) recognised in other comprehensive income	—	—	—	—	—	—	—	1,250	1,250	—	1,250
– exchange differences	—	—	—	—	—	6	—	—	6	—	6
Total comprehensive income for the period	—	—	264	(1,344)	(72)	6	—	1,250	104	—	104
Capital securities issued during the period	700	248	—	—	—	—	—	—	948	—	948
Dividends to shareholders[2]	—	—	(17)	—	—	—	—	—	(17)	—	(17)
Net impact of equity-settled share-based payments									—		—
Other movements			(17)						(17)		(17)
Total Others	700	248	(34)	—	—	—	—	—	914	—	914
At 30 Jun 2022	3,328	998	2,358	(675)	(35)	(15)	1,592	638	8,189	9	8,198

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

2 Dividends corresponds to the coupon payment on other equity instrument (additional tier 1 capital) amounting to EUR 17 million.

Consolidated statement of changes in equity[1] (continued)

				Other reserves							
	Called-up share capital and share premium	Other equity instru-ments	Retained earnings	Financial assets at FVOCI Reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves	Insurance finance reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m		€m	€m	€m
At 1 Jul 2022	3,328	998	2,358	(675)	(35)	(15)	1,592	638	8,189	9	8,198
Profit/(loss) for the period	—	—	(1,123)	—	—	—	—	—	(1,123)	2	(1,121)
Other comprehensive income	—	—	11	(461)	(196)	2	—	411	(233)	—	(233)
– debt instruments at fair value through other comprehensive income	—	—	—	(461)	—	—	—	—	(461)	—	(461)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	(196)	—	—	—	(196)	—	(196)
– re-measurement of defined benefit asset/liability	—	—	18	—	—	—	—	—	18	—	18
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	(7)	—	—	—	—	—	(7)	—	(7)
– 'Insurance finance income/(expense) recognised in other comprehensive income	—	—	—	—	—	—	—	411	411	—	411
– exchange differences	—	—	—	—	—	2	—	—	2	—	2
Total comprehensive income for the period	—	—	(1,112)	(461)	(196)	2	—	411	(1,356)	2	(1,354)
Capital securities issued during the period	2,998	—	—	—	—	—	—	—	2,998	—	2,998
Dividends to shareholders[2]	—	—	(22)	—	—	—	—	—	(22)	—	(22)
Net impact of equity-settled share-based payments			1						1		1
Other movements[3]		435	1,113						1,548	135	1,683
Total Others	2,998	435	1,092	—	—	—	—	—	4,525	135	4,660
At 31 Dec 2022	6,326	1,433	2,338	(1,136)	(231)	(13)	1,592	1,049	11,358	146	11,504

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *Dividends corresponds to the coupon payment on other equity instrument (additional tier 1 capital) amounting to EUR 22 million.*
3 *Change in business combination and other movements include a EUR 1,123 million capital contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022, EUR 435 million in additional tier 1 capital instruments in HSBC Trinkaus & Burkhardt GmbH and EUR 145 million in non-controlling interest in HSBC Bank Malta p.l.c.*

Notes on the condensed financial statements

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1 Basis of preparation and significant accounting policies

HSBC Continental Europe is an entity domiciled in France. The HSBC Continental Europe condensed consolidated financial statements for the half-year up to 30 June 2023 contain the financial statements of HSBC Continental Europe, its subsidiaries and interests in jointly controlled entities and affiliates.

The consolidated financial statements of HSBC Continental Europe for the financial year 2022 are available upon request from the HSBC Continental Europe registered office at 38, avenue Kléber – 75116 Paris or on the website www.hsbc.fr

These interim consolidated financial statements were approved by the Board of Directors on 31 July 2023.

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

The interim consolidated financial statements of HSBC Continental Europe have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). They do not include all the information disclosed in the annual financial statements and should be read in conjunction with the HSBC Continental Europe *Universal Registration Document 2022.*

At 30 June 2023, there were no unendorsed standards effective for the half year to 30 June 2023 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC Continental Europe.

Standards applied during the half-year to 30 June 2023

IFRS 17 'Insurance Contracts'

On 1 January 2023, HSBC Continental Europe adopted the requirements of IFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, total equity reduced by EUR 496 million.

On adoption of IFRS 17, balances based on IFRS 4, including the present value of in-force business ('PVIF') asset in relation to the upfront recognition of future profits of in-force insurance contracts, were derecognised. Insurance contract liabilities have been re-measured under IFRS 17 based on groups of insurance contracts, which include the fulfilment cash flows comprising the best estimate of the present value of the future cash flows (for example premiums and payouts for claims, benefits, and expenses), together with a risk adjustment for non-financial risk, as well as the contractual service margin ('CSM'). The CSM represents the unearned profits that will be released and systematically recognised in Insurance revenue as services are provided over the expected coverage period.

Summary of material accounting policies

The following policies will substantially replace Section 1.2(j) 'Insurance contracts' in the financial statements of the Universal Registration Document 2023.

IFRS 17 sets out the requirements that the group applies in accounting for insurance contracts it issues, reinsurance contracts it holds and investment contracts with discretionary participation features it issues.

An insurance contract is a contract under which the group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event.

Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. Each portfolio is further separated by profitability group and issue date, with contracts the group issues after the transition date being grouped into either calendar quarter or annual cohorts depending on the characteristics of the portfolio. For multi-currency groups of contracts, the group considers its groups of contracts as being denominated in a single currency. HSBC Continental Europe did not elect to apply the annual cohorts exemption.

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and will include fulfilment cash flows as well as the CSM representing the unearned profit. The group has elected to update the estimates used in the measurement on a year-to-date basis.

Fulfilment cash flows

The fulfilment cash flows comprise the followings:

(i) Best estimates of future cash flows

These cash flows include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using a range of scenarios and assumptions in an unbiased way based on the group's demographic and operating experience along with external mortality data where the group's own experience data is not sufficiently large in size to be credible.

(ii) Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value. The group generally makes use of stochastic modelling techniques in the estimation for products with options and guarantees. A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts.

(iii) Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. It is calculated as a 75th percentile level of stress over a one year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses. Furthermore, the risk adjustment calculated using a multi-year approach will be published.

The group does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

Measurement models

The variable fee approach ('VFA') measurement model is used for the majority of contracts issued by the group, which is mandatory upon meeting the following eligibility criteria at inception:

a. the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
b. the group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The group considers that a substantial share is a majority of returns; and
c. the group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The group considers that a substantial proportion is a majority proportion of change on a present value probability weight average of all scenarios.

For contracts measured under VFA, the other comprehensive income ('OCI') option is used. The OCI option is applied where the underlying items held by the group are not accounted for at fair value through profit or loss. Under this option, only the amount that matches income or expenses recognised in profit or loss on underlying items is included in finance income or expenses for these insurance contracts, and hence results in the elimination of accounting mismatches. The remaining amount of finance income or expenses for these insurance contracts issued for the period is recognised in OCI.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ('GMM').

CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition when the group of contracts is profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in the group's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM, but are recognised in profit or loss as they arise.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The group identifies the quantity of the benefits provided as follows:

- For insurance coverage – based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund value or surrender value.
- For investment services (including both investment-return service and investment-related service) – based on a constant measure basis which reflects the provision of access for the policyholder to the facility, the coverage unit being the number of insurance contracts.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

Insurance service result

Insurance revenue reflects the consideration to which the group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

Insurance finance income and expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses, except where the OCI option applies as described above.

Key differences between IFRS 4 and IFRS 17:

	IFRS 4	IFRS 17
Balance sheet	– Insurance contract liabilities for non-linked life insurance contracts are calculated by local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, by reference to the value of the relevant underlying funds or indices. Grouping requirements follow local regulations. – An intangible asset for the PVIF is recognised, representing the upfront recognition of future profits associated with in-force insurance contracts.	– Insurance contract liabilities are measured for groups of insurance contracts at current value, comprising the fulfilment cash flows and the CSM. – The fulfilment cash flows comprise the best estimate of the present value of together with a risk adjustment for non-financial risk. – The CSM represents the unearned profit.
Profit emergence / recognition	– The value of new business is reported as revenue on Day 1 as an increase in PVIF. – The impact of the majority of assumption changes is recognised immediately in the income statement. – Variances between actual and expected cash flows are recognised in the period they arise.	– The CSM is systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts (i.e. no Day 1 profit). – Contracts are measured using the general measurement model ('GMM') or the variable fee approach ('VFA') model for insurance contracts with direct participation features upon meeting the eligibility criteria. Under the VFA model, the group's share of the investment experience and assumption changes are absorbed by the CSM and released over time to profit or loss. For contracts measured under GMM, the group's share of the investment volatility is recorded in profit or loss as it arises. – Losses from onerous contracts are recognised in the income statement immediately.
Investment return assumptions (discount rate)	– PVIF is calculated based on long-term investment return assumptions based on assets held. It therefore includes investment margins expected to be earned in future.	– Under the market consistent approach, expected future investment spreads are not included in the investment return assumption. Instead, the discount rate includes an illiquidity premium that reflects the nature of the associated insurance contract liabilities.
Expenses	– Total expenses to acquire and maintain the contract over its lifetime are included in the PVIF calculation. – Expenses are recognised across operating expenses and fee expense as incurred and the allowances for those costs released from the PVIF simultaneously.	– Projected lifetime expenses that are directly attributable costs are included in the insurance contract liabilities and recognised in the insurance service result. – Non-attributable costs are reported in operating expenses.

Transition

In applying IFRS 17 for insurance contracts retrospectively, the full retrospective approach ('FRA') has been used unless it was impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). HSBC Continental Europe applied the FRA for new business from 2019 at the earliest, subject to practicability, and the MRA for the majority of contracts for which the FRA is impracticable.

Related updates to other accounting policies arising from the implementation of IFRS 17 will be disclosed in the Universal Registration Document 2023.

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

(b) Use of estimates and judgements

Management believes that the critical accounting estimates and judgements applicable to the group are those which relate to impairment of amortised cost and FVOCI financial assets, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and non-current assets held for sale. Excluding those related to IFRS17 implementation explained above, there were no changes in the current period to the critical accounting estimates and judgements applied in 2022, which are stated on pages 185 to 196 of the Universal Registration Document 2022.

(c) Composition of HSBC Continental Europe

There were no material changes in the composition of HSBC Continental Europe in the half-year to 30 June 2023. See Note 13 Changes in scope of consolidation during the first half-year of 2023 and Note 10 'Assets held for sale and liabilities of disposal groups held for sale' for details on planned business disposals.

(d) Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that HSBC Continental Europe has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources.

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

(e) Accounting policies

The accounting policies adopted by HSBC Continental Europe for the interim consolidated financial statements are consistent with those described in Note 1 on the condensed financial statements of the *Universal Registration Document 2022,* with the exception of those relating to IFRS 17 as described above.

(f) Significant events during the first half-year

Business disposals

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 1.9 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 and 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 and 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 branch operations in Greece

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 0.1 billion 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.

See Note 10 'Assets held for sale and liabilities of disposal groups held for sale' for further details and for an update on the planned sale.

Issuances and repayments

In January 2023, HSBC Continental Europe issued Senior Non Preferred Notes with maturity of six years for a notional amount of EUR 500 million. 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, leaving EUR 1.1 billion as at 30 June 2023.

(h) Presentation of information

Information related to results by business segments ('IFRS 8') are disclosed in the management report on pages 11 to 19. Disclosures concerning the nature and extent of risks relating to financial instruments are in risk section on pages 20 to 45. These form an integral part of these condensed financial statements.

2 Dividends

There was no interim dividend distribution for the 2023 financial year during the first half of 2023.

The Ordinary General Meeting held on 23 March 2023 approved the recommendation of the Board of Directors, on 20 February 2023, not to distribute a dividend in respect of the year 2022.

Earnings and dividends per share

	Half year to[1]	
	30 Jun 2023	30 Jun 2022
	€ per share	€ per share
Basic earnings per share	**9.10**	0.28
Diluted earnings per share	**9.10**	0.28
Dividends per share[2]	**—**	—

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *Coupons paid on other equity instruments are not included in the calculation of the dividends per share.*

Basic earnings per ordinary share were calculated by dividing the profit/(loss) attributable to ordinary shareholders of the parent company of EUR 1,933 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 212,466,555 (first half of 2022: profit of EUR 31 million and 109,893,082 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive effects of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 212,466,555 (first half of 2022: 109,893,082 shares).

At 30 June 2023, no potentially dilutive ordinary share has been issued.

Other equity instruments

Total coupons on capital instruments classified as equity

		Six months ended	
		30 Jun 2023	30 Jun 2022
	First call date	**€m**	€m
Perpetual subordinated capital securities			
– EUR 200 million issued at 5.73%[1]	May 2022	**6**	5
– EUR 300 million issued at 6.45%[2]	March 2023	**6**	6
– EUR 250 million issued at 3.46%	December 2024	**4**	4
– EUR 250 million issued at 3M Euribor + 4.06%	March 2027	**9**	2
– EUR 235 million issued at 5Y Euro Swap Rate + 5.55%[3]	January 2022	**13**	—
– EUR 200 million issued at 5.039%	January 2025	**10**	—
Total		**48**	17

1 *On 26 May 2022, the interest on the EUR 200 million perpetual subordinated security issued on 26 May 2017 at 4.56 per cent was revised to 5.73 per cent. The instrument is callable on any date after the first call date.*
2 *On 28 March 2023, the interest on the EUR 300 million perpetual subordinated security issued on 28 March 2018 at 4.00 per cent was revised to 6.45 per cent. The instrument is callable on any date after the first call date.*
3 *The interest on EUR 235 million perpetual subordinated security issued in 2016 at 5.65 per cent revised to 5Y Euro Swap Rate + 5.55 per cent in January 2022.*

3 Net fee income

Net fee income

	Half-year to[1]	
	30 Jun 2023	30 Jun 2022
	€m	€m
Account services	**109**	74
Funds under management	**193**	105
Cards	**20**	19
Credit facilities	**110**	73
Broking income	**113**	16
Unit trusts	**1**	3
Imports/exports	**8**	8
Remittances	**48**	37
Underwriting	**84**	65
Global custody	**54**	22
Insurance agency commission	**4**	9
Other[2]	**199**	219
Fee income	**943**	650
Less: fee expense	**(264)**	(163)
Net Fee income	**679**	487
Global business		
Wealth and Personal Banking	**162**	138
Commercial Banking	**178**	135
Markets and Securities Services	**158**	61
Global Banking	**167**	154
Global Banking and Markets Other	**21**	—
Corporate Centre	**(7)**	(1)

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *Other includes intercompany fees and third party fees not included in other categories.*

4 Fair values of financial instruments carried at fair value

The accounting policies, control framework, and the hierarchy used to determine fair values are consistent with those applied for the *Universal Registration Document 2022.*

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

Financial instruments carried at fair value and bases of valuation

	2023				2022			
	Level 1 – quoted market price	**Level 2 – using observ-able inputs**	**Level 3 – with significant non-observable inputs**	**Total**	Level 1 – quoted market price	Level 2 – using observ-able inputs	Level 3 – with significant non-observable inputs	Total
At 30 Jun 2023	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m
Assets								
Trading assets	**14,146**	**825**	**589**	**15,560**	12,098	1,025	654	13,777
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**4,126**	**6,647**	**2,209**	**12,982**	3,753	6,175	2,242	12,170
Derivatives	**341**	**52,268**	**195**	**52,804**	322	59,444	194	59,960
Financial investments	**8,846**	**8,028**	**1,316**	**18,190**	8,590	8,126	1,262	17,978
Assets held for sale	**2**	**—**	**—**	**2**	76	—	44	120
Liabilities								
Trading liabilities	**20,259**	**933**	**19**	**21,211**	16,310	1,185	14	17,509
Financial liabilities designated at fair value	**157**	**9,683**	**807**	**10,647**	157	7,408	1,484	9,049
Derivatives	**546**	**48,526**	**293**	**49,365**	92	55,257	377	55,726
Liabilities of disposal groups held for sale	**—**	**—**	**—**	**—**	—	3,307	—	3,307

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2023							
Transfers from Level 1 to Level 2	**29**	**2**	**—**	**—**	**—**	**—**	**—**
Transfers from Level 2 to Level 1	**140**	**10**	**—**	**—**	**2**	**—**	**—**
At 31 Dec 2022							
Transfers from Level 1 to Level 2	145	275	—	—	1	—	—
Transfers from Level 2 to Level 1	215	193	—	—	—	—	—

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

Fair value valuation bases

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

	Assets					Liabilities			
	Financial Invest-ments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total Assets	Trading liabilities	Designated at fair value	Derivatives	Total liabilities
	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2023									
Private equity including strategic investments	**35**	**1**	**2,014**	**—**	**2,050**	**1**	**—**	**—**	**1**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**807**	**—**	**807**
Derivatives	**—**	**—**	**—**	**195**	**195**	**—**	**—**	**293**	**293**
Other portfolios	**1,281**	**588**	**195**	**—**	**2,064**	**18**	**—**	**—**	**18**
Total	**1,316**	**589**	**2,209**	**195**	**4,309**	**19**	**807**	**293**	**1,119**
At 31 Dec 2022									
Private equity including strategic investments	35	1	2,037	—	2,073	1	—	—	1
Structured notes	—	—	—	—	—	—	1,484	—	1,484
Derivatives	—	—	—	194	194	—	—	377	377
Other portfolios	1,227	653	205	—	2,085	13	—	—	13
Total	1,262	654	2,242	194	4,352	14	1,484	377	1,875

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Invest-ments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Deriva-tives	Trading liabili-ties	Designa-ted at fair value	Deriva-tives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2023	**1,262**	**654**	**2,242**	**194**	**14**	**1,484**	**377**
Total gains/(losses) recognised in profit or loss	**—**	**(7)**	**(64)**	**14**	**4**	**59**	**(10)**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis[1]	**—**	**(7)**	**—**	**14**	**4**	**—**	**(10)**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**(64)**	**—**	**—**	**59**	**—**
– gains less losses from financial investments at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income	**38**	**—**	**—**	**—**	**—**	**—**	**—**
– financial investments: fair value gains/(losses)	**38**	**—**	**—**	**—**	**—**	**—**	**—**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchases	**54**	**164**	**28**	**—**	**—**	**—**	**—**
New issuances	**—**	**—**	**—**	**—**	**2**	**128**	**—**
Sales	**(85)**	**(214)**	**(1)**	**—**	**—**	**(2)**	**—**
Settlements[1]	**—**	**(8)**	**43**	**(8)**	**(1)**	**(872)**	**(48)**
Transfer out	**(81)**	**(1)**	**(39)**	**(14)**	**—**	**(7)**	**(27)**
Transfer in	**128**	**1**	**—**	**9**	**—**	**17**	**1**
At 30 Jun 2023	**1,316**	**589**	**2,209**	**195**	**19**	**807**	**293**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2023	**—**	**(7)**	**(64)**	**72**	**(3)**	**(42)**	**15**
– trading income/(expense) excluding net interest income	**—**	**(7)**	**—**	**72**	**(3)**	**—**	**15**
– net income/(expense) from other financial instruments designated at fair value	**—**	**—**	**(64)**	**—**	**—**	**(42)**	**—**

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2022	999	10	2,284	118	—	665	160
Total gains/(losses) recognised in profit or loss	—	—	62	26	—	(71)	119
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	—	—	26	—	—	119
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	62	—	—	(71)	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	(202)	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	(202)	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	346	3	162	—	—	—	—
New issuances	—	—	—	—	—	24	—
Sales	(117)	(3)	(189)	—	—	(21)	—
Settlements	—	—	—	18	—	(22)	17
Transfer out	—	—	—	(7)	—	(57)	(59)
Transfer in	3	—	—	13	—	227	30
At 30 Jun 2022	1,029	10	2,319	168	—	745	267
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2022	—	—	63	8	—	51	(107)
– trading income/(expense) excluding net interest income	—	—	—	8	—	—	(107)
– net income/(expense) from other financial instruments designated at fair value	—	—	63	—	—	51	—
At 1 Jul 2022	1,029	10	2,319	168	—	745	267
Total gains/(losses) recognised in profit or loss	—	4	17	(16)	(1)	(11)	14
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	4	—	(16)	(1)	—	14
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	17	—	—	(11)	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	(74)	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	(74)	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	357	657	46	—	—	—	—
New issuances	—	—	—	—	—	798	—
Sales	(50)	(62)	(100)	—	—	(70)	—
Settlements[2]	—	1	(40)	(34)	15	—	(6)
Transfer out	—	—	—	(11)	—	(51)	(21)
Transfer in	—	44	—	87	—	73	123
At 31 Dec 2022	1,262	654	2,242	194	14	1,484	377
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 Dec 2022	—	(5)	55	7	1	13	(115)
– trading income/(expense) excluding net interest income	—	(5)	—	7	1	—	(115)
– net income/(expense) from other financial instruments designated at fair value	—	—	55	—	—	13	—

1 ""Settlements" includes reversal of held for sale of instruments designated at fair value of EUR 44 million related to retail banking operations in France.
2 "Settlements" includes re-classification to held for sale of instruments designated at fair value of EUR 44 million related to retail banking operations in France.

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 30 Jun 2023				At 31 Dec 2022			
	Reflected in profit or loss		Reflected in other comprehensive Income		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	€m	€m	€m	€m	€m	€m	€m	€m
Derivatives/trading assets/trading liabilities[1]	7	(12)	—	—	7	(7)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	107	(107)	—	—	113	(113)	—	—
Financial investments	—	—	11	(14)	—	—	10	(10)
Total	**114**	**(119)**	**11**	**(14)**	120	(120)	10	(10)

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

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

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	€m	€m	€m	€m
At 30 Jun 2023				
Private equity investments including strategic investments	105	(105)	3	(3)
Structured notes	1	(1)	—	—
Derivatives	6	(6)	—	—
Other portfolios	2	(7)	8	(11)
Total	**114**	**(119)**	**11**	**(14)**
At 31 Dec 2022				
Private equity investments including strategic investments	110	(110)	3	(3)
Structured notes	1	(1)	—	—
Derivatives	2	(2)	—	—
Other portfolios	7	(7)	7	(7)
Total	120	(120)	10	(10)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95 per cent confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or most unfavourable change by varying the assumptions individually.

Quantitative information about significant unobservable input in Level 3 valuations

	Fair value[1] Assets €m	Fair value[1] Liabilities €m	Valuation technique	Key unobservable inputs	Full range of inputs Lower %	Full range of inputs Higher %
At 30 Jun 2023						
Private equity including strategic investments	2,050	1	See notes below[4]	See notes below[4]	n/a	n/a
Asset-backed securities	—	—				
– CLO/CDO[2]	—	—	Market proxy	Bid quotes	n/a	n/a
– other ABSs	—	—				
Structured notes	—	807				
– equity-linked notes	—	494	Model – Option model	Equity volatility	—	—
			Model – Option model	Equity Correlation	52	99
– FX-linked notes	—	—	Model – Option model	FX volatility	—	—
– other	—	313				
Derivatives	195	293				
Interest rate derivatives	141	223				
– securitisation swaps	3	2	Model – DCF[3]	Prepayment rate	5	10
– long-dated swaptions	—	—	Model – Option model	IR volatility	—	—
– other	138	221				
Foreign exchange derivatives	23	9				
– foreign exchange options	23	9	Model – Option model	FX volatility	2	11
Equity derivatives	31	59				
– long-dated single stock options	—	—	Model – Option model	Equity volatility	—	—
– other	31	59				
Credit derivatives	—	2				
– other	—	2				
Other portfolios	2,064	18				
Total Level 3	4,309	1,119				
At 31 Dec 2022						
Private equity including strategic investments	2,073	1	See notes below[4]	See notes below[4]	n/a	n/a
Asset-backed securities	—	—				
– CLO/CDO[2]	—	—	Market proxy	Bid quotes	n/a	n/a
– other ABSs	—	—				
Structured notes	—	1,484				
– equity-linked notes	—	1,171	Model – Option model	Equity volatility		
			Model – Option model	Equity Correlation	56	91
– FX-linked notes	—	—	Model – Option model	FX volatility	—	—
– other	—	313				
Derivatives	194	377				
Interest rate derivatives	149	257				
– securitisation swaps	—	4	Model – DCF[3]	Prepayment rate	5	10
– long-dated swaptions	—	—	Model – Option model	IR volatility	—	—
– other	149	253				
Foreign exchange derivatives	11	10				
– foreign exchange options	11	10	Model – Option model	FX volatility	—	—
Equity derivatives	34	107				
– long-dated single stock options	—	—	Model – Option model	Equity volatility		
– other	34	107				
Credit derivatives	—	3				
– other	—	3				
Other portfolios	2,085	13				
Total Level 3	4,352	1,875				

1 *Including Level 3 balances with HSBC entities.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted cash flow.*
4 *See Note 13 Fair values of financial instruments carried at fair value of the Universal Registration Document 2022.*

5 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities, non-trading repurchase and reverse repurchase agreements are consistent with that detailed in the *Universal Registration Document 2022*.

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

		Fair value			
	Carrying amount	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 30 Jun 2023					
Assets					
Loans and advances to banks	**9,388**	**—**	**9,350**	**—**	**9,350**
Loans and advances to customers	**62,537**	**—**	**—**	**60,728**	**60,728**
Reverse repurchase agreements – non-trading	**26,305**	**—**	**26,305**	**—**	**26,305**
Financial investments – at amortised cost	**1,374**	**511**	**796**	**7**	**1,314**
Liabilities					
Deposits by banks	**9,033**	**—**	**9,049**	**—**	**9,049**
Customer accounts	**104,183**	**—**	**104,237**	**—**	**104,237**
Repurchase agreements – non-trading	**12,961**	**—**	**12,961**	**—**	**12,961**
Debt securities in issue	**10,192**	**—**	**10,102**	**—**	**10,102**
Subordinated liabilities	**2,013**	**—**	**2,038**	**—**	**2,038**
At 31 Dec 2022					
Assets					
Loans and advances to banks	7,233	—	7,235	—	7,235
Loans and advances to customers	42,340	—	—	42,337	42,337
Reverse repurchase agreements – non-trading	15,374	—	15,374	—	15,374
Financial investments – at amortised cost	1,157	367	745	7	1,119
Liabilities					
Deposits by banks	11,182	—	11,252	—	11,252
Customer accounts	83,692	—	83,701	—	83,701
Repurchase agreements – non-trading	6,655	—	6,654	—	6,654
Debt securities in issue	6,861	—	6,861	—	6,861
Subordinated liabilities	2,023	—	2,064	—	2,064

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

6 Goodwill and intangible assets

Impairment testing

HSBC Continental Europe tests goodwill for impairment as at 31 December each year and whenever there is an indication that it may be impaired. At 30 June 2023, HSBC Continental Europe carried goodwill of EUR 66 million in the Asset Management business and there was no indication that it may be impaired.

7 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	€m	€m	€m	€m	€m
Provisions (excluding contractual commitments)					
At 31 Dec 2022	121	19	4	79	223
Additions	**4**	**1**	**—**	**24**	**29**
Amounts utilised	**(24)**	**—**	**—**	**(12)**	**(36)**
Unused amounts reversed	**(12)**	**(9)**	**—**	**(10)**	**(31)**
Exchange and other movements	**(3)**	**4**	**—**	**6**	**7**
At 30 Jun 2023	**86**	**15**	**4**	**87**	**192**
Contractual commitments[1]					
At 31 Dec 2022					63
Net change in expected credit loss provisions and other movements					**(19)**
At 30 Jun 2023					**44**
Total provisions					
At 31 Dec 2022					**286**
At 30 Jun 2023					**236**

1 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/ nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 40.*

Information relating to legal proceedings and regulatory matters related to HSBC Group entities can be found in Note 9.

8 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun	31 Dec
	2023	2022
	€m	€m
Guarantees and contingent liabilities[1]		
– financial guarantees	**4,650**	4,722
– performance and other guarantees	**12,297**	12,351
– other contingent liabilities	**12**	12
At the end of the period	**16,959**	17,085
Commitments[1,2]		
– documentary credits and short-term trade-related transactions	**1,316**	1,774
– forward asset purchases and forward deposits placed	**47,388**	34,942
– standby facilities, credit lines and other commitments to lend	**70,089**	68,011
At the end of the period	**118,793**	104,727

1 *Includes guarantees & other contingent liabilities of EUR 144 million (2022: EUR 431 million) and commitments of EUR 46 million (2022: EUR 56 million) related to branch operations in Greece.*
2 *Includes EUR 111,656 million of commitments at 30 June 2023 (31 December 2022: EUR 104,727 million), to which the impairment requirements in IFRS 9 are applied where HSBC Continental Europe has become party to an irrevocable commitment.*

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

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

HSBC Group entities, including HSBC Continental Europe, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 'Legal risks and litigation management' on pages 238 and 239 of the *Universal Registration Document 2022*, HSBC Continental Europe considers that none of these matters is significant. HSBC Continental Europe recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 30 June 2023.

Bernard L. Madoff Investment Securities LLC

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

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

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

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

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

US litigation:

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

European interbank offered rates investigations

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

In December 2016, the European Commission ('the Commission') issued a decision finding that HSBC, among other banks, engaged in anti-competitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine on HSBC based on a one-month infringement, which has been paid by HSBC Continental Europe. HBCE appealed the decision and, in September 2019, the General Court of the European Union (the 'General Court') issued a decision largely upholding the Commission's finding on liability, but annulling the fine. HSBC and Commission both appealed the General Court's decision to the European Court of justice (the 'Court of Justice'). In June 2021, the Commission adopted a new fining decision for an amount which was 5 per cent less than the previously annulled fine, and subsequently withdrew its appeal to the Court of Justice. In January 2023, the Court of Justice dismissed an appeal by HSBC against the September 2019 General Court's decision and upheld the Commission's findings on HSBC's liability. A separate appeal by HSBC against the new fining decision adopted in June 2021 remains pending before the General Court.

Other regulatory investigations, reviews and litigation

HSBC Bank plc and/or certain of its affiliates, including HSBC Continental Europe, are subject to a number of other investigations and reviews by various regulators and competition and law enforcement authorities, as well as litigation, in connection with various matters relating to the firm's businesses and operations, including investigations by prosecuting authorities in Germany and France in connection with the dividend withholding tax treatment of certain trading activities.

10 Assets held for sale and liabilities of disposal groups held for sale

Held For Sale

	At	
	30 Jun 2023	31 Dec 2022
	€m	€m
Disposal groups	**1,321**	25,762
Unallocated impairment losses[1]	**(94)**	(2,015)
Non-current assets held for sale	**—**	14
Total assets	**1,227**	23,761
Liabilities of disposal groups	**1,358**	27,855

1 *Represents impairment losses in excess of the carrying value on the non-current assets, excluded from the measurement scope of IFRS 5.*

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

	At
	30 Jun 2023
	€m
Assets of disposal groups held for sale	
Cash and balances at central banks	**1,014**
Trading Assets	**1**
Loans and advances to banks	**22**
Loans and advances to customers	**278**
Financial Investment	**1**
Prepayments,accrued income and other assets[1]	**(89)**
Total assets	**1,227**

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

	At
	30 Jun 2023
	€m
Liabilities of disposal groups held for sale	
Deposits by banks	**1**
Customer accounts	**1,333**
Accruals, deferred income and other liabilities	**24**
Total liabilities	**1,358**

11 Transactions with related parties

In January 2023, HSBC Continental Europe issued Senior Non Preferred Notes with maturity of six years for a notional amount of EUR 500 million. 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.

There were no other changes to the related party transactions described in the *Universal Registration Document 2022* that have had a material effect on the financial position or performance of the HSBC Continental Europe's group in the six months to 30 June 2023.

12 Effects of adoption of IFRS 17

On 1 January 2023 HSBC Continental Europe adopted IFRS 17 'Insurance Contracts' and as required by the standard applied the requirements retrospectively with comparatives restated from the transition date, 1 January 2022. The tables below provide the transition restatement impact on the group's consolidated balance sheet as at 1 January 2022, as well as the group consolidated income statement and the group consolidated statement of comprehensive income for the six-month period ended 30 June 2022. Further information about the effect of adoption of IFRS 17 is provided in Note 1 Basis of preparation and significant accounting policies on page 53.

IFRS 17 transition impact on the consolidated balance sheet at 1 January 2022

	IFRS 4	Removal of PVIF and IFRS 4	Remeasure-ment effect of IFRS 9 re-designations	IFRS 17 fulfilment cash flows	IFRS 17 CSM	Tax effect	IFRS 17	Total movements
	€m	€m	€m	€m	€m	€m	€m	€m
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	13,345						13,345	—
Loans and advances to banks	6,832						6,832	—
Loans and advances to customers	59,612						59,612	—
Financial investments	16,110						16,110	—
Goodwill and intangible assets	763	(677)					86	(677)
Deferred tax assets	37					182	219	182
All other assets	125,965	55		(1)	3		126,022	57
Total assets	222,664	(622)	—	(1)	3	182	222,226	(438)
Liabilities and equity								
Liabilities								
Insurance contract liabilities	23,698	(23,698)		22,897	853		23,750	52
Deferred tax liabilities	—					—	—	—
All other liabilities	191,290	6		—	—		191,296	6
Total liabilities	214,988	(23,692)		22,897	853	—	215,046	58
Total shareholders' equity	7,667	23,070	—	(22,898)	(850)	182	7,171	(496)
Non-controlling interests	9						9	—
Total equity	7,676	23,070	—	(22,898)	(850)	182	7,180	(496)
Total liabilities and equity	222,664	(622)	—	(1)	3	182	222,226	(438)

Transition drivers

Removal of PVIF and IFRS 4 balances

The PVIF intangible asset of EUR 677 million previously reported under IFRS 4 within 'Goodwill and intangible assets' arose from the upfront recognition of future profits associated with in-force insurance contracts. PVIF is no longer reported following the transition to IFRS 17, as future profits are deferred as unearned revenue within the CSM. Other IFRS 4 insurance contract assets (shown above within 'all other assets') and insurance contract liabilities are removed on transition, to be replaced with IFRS 17 balances.

Recognition of the IFRS 17 fulfilment cash flows

The measurement of the insurance contracts liabilities under IFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the insurance contract, such as premiums, expenses, insurance benefits and claims including policy holder returns and the cost of guarantees. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment for non financial risk.

Recognition of the IFRS 17 CSM

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts which will be released to the profit and loss over the expected coverage period.

Tax effect

The removal of deferred tax liabilities primarily results from the removal of the associated PVIF assets, and new deferred tax assets are reported, where appropriate, on temporary differences between the new IFRS 17 accounting balances and their associated tax bases.

Intragroup Cash Flows

The group's accounting for insurance contracts considers a broader set of cash flows than those arising within the insurance manufacturing entities. This includes the effect of eliminating intragroup fees and directly attributable costs incurred by other group entities.

For HSBC Life Insurance Malta, these cash flows have not been considered as material and are not eliminated.

For HSBC Assurance Vie (France), in the context of the disposal of the France Retail network of HSBC Continental Europe, and considering the required costs and efforts in regards to the expected non material impact, the intragroup distribution cash flows between HSBC Assurance Vie (France) and HSBC Continental Europe have not been considered for Fullfilment Cash Flows and CSM calculation.

Nevertheless, in order to avoid overstatement of the consolidated operating income and operating expenses of HSBC Continental Europe, the intragroup insurance distribution fees received by group are eliminated through a reduction of the Operating Expenses of the same amount for the periods where these were not reported as held for sale. As at 30 June 2022, this elimination amounted to EUR 38 million.

IFRS 17 transition impact on the reported group consolidated income statement for the 6 months ended 30 June 2022

	IFRS 4	Removal of PVIF and IFRS 4	Remeasure-ment effect of IFRS 9 re-designations	Insurance finance income/ expense	IFRS 17 CSM	Onerous contracts	Experience variance and other	Attribut-able expenses	Tax effect	IFRS 17
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Net interest income	556	—	—	—	—	—	—	—	—	556
Net fee income	485	—	—	—	—	—	—	2	—	487
Net income from financial instruments held for trading or managed on a fair value basis	211	—	—	—	—	—	—	—	—	211
Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(1,332)	—	—	—	—	—	—	—	—	(1,332)
Changes in fair value of designated debt and related derivatives	(22)	—	—	—	—	—	—	—	—	(22)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	18	—	—	—	—	—	—	—	—	18
Gains less losses from financial investments instruments	(6)	—	—	—	—	—	—	—	—	(6)
Net insurance premium income	902	(902)	—	—	—	—	—	—	—	—
Insurance finance income/(expense)	—	—	—	1,142	—	—	—	—	—	1,142
Insurance service result	—	—	—	—	44	—	7	—	—	51
– insurance revenue	—	—	—	—	44	—	61	—	—	105
– insurance service expense	—	—	—	—	—	—	(54)	—	—	(54)
Other operating income/(loss)	48	(124)	—	—	—	—	—	—	—	(76)
Total operating income	860	(1,026)	—	1,142	44	—	7	2	—	1,029
Net insurance claims and benefits paid and movement in liabilities to policyholders	358	(358)	—	—	—	—	—	—	—	—
Net operating income before change in expected credit losses and other credit impairment charges	1,218	(1,384)	—	1,142	44	—	7	2	—	1,029
Change in expected credit losses and other credit impairment charges	—	—	—	—	—	—	—	—	—	—
Net operating income	1,218	(1,384)	—	1,142	44	—	7	2	—	1,029
Total operating expenses	(1,034)	—	—	—	—	—	—	59	—	(975)
Operating profit	184	(1,384)	—	1,142	44	—	7	61	—	54
Share of profit in associates and joint ventures	—	—	—	—	—	—	—	—	—	—
Profit before tax	184	(1,384)	—	1,142	44	—	7	61	—	54
Tax expense	(57)	—	—	—	—	—	—	—	34	(23)
Profit for the period	127	(1,384)	—	1,142	44	—	7	61	34	31

Transition drivers

Removal of IFRS 4 based revenue items

As a result of the removal of the PVIF intangible asset and IFRS 4 results , the associated revenue of EUR (124) million for the six-months to June 2022 that was previously reported within Other operating income is no longer reported under IFRS 17. This includes the derecognition of the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances.

On the implementation of IFRS 17 new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported IFRS 4 line items 'Net insurance premium income', and 'Net insurance claims and benefits paid and movement in liabilities to policyholders' were also removed.

Introduction of IFRS 17 income statement

Insurance finance income/(expense)

Insurance finance income/(expense) of EUR 1,142 million for the six-months to June 2022 represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For VFA contracts, which represent more than 99 per cent of HSBC Continental Europe's insurance contracts, the insurance finance income/(expense) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts.

This includes an offsetting impact to the gains and losses on assets held at fair value through profit or loss, and which is now included in 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

CSM

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 3.3 per cent during the six-months to June 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, changes to levels of actual returns earned on underlying assets, or changes to assumptions.

Onerous contracts

Losses on onerous contracts are taken to the income statement as incurred.

Experience variance and other

Experience variance and other revenue represents the expected expenses, claims and amortisation of acquisition cash flows which are reported as part of the insurance service revenue. This is offset with the actual expenses and claims incurred in the period and recovery of acquisition cash flows.

Attributable expenses

Directly attributable expenses are the costs associated with originating and fulfilling an identified portfolio of insurance contracts. These costs include distribution fees paid to third parties as part of originating insurance contracts together with appropriate allocations of fixed and variable overheads which are included within the fulfilment cash flows and are no longer shown on the operating expenses line.

IFRS 17 transition impact on the consolidated statement of comprehensive income

	Half year to			
	31 Dec 2022	31 Dec 2022	**30 Jun 2022**	30 Jun 2022
	IFRS 17	IFRS 4	**IFRS 17**	IFRS 4
	€m	€m	**€m**	€m
Opening equity for the period	**8,198**	8,810	**7,180**	7,676
– *of which:*				
– *Retained earnings*	***2,358***	*2,974*	***2,128***	*2,636*
– *Financial assets at FVOCI reserve*	***(675)***	*(40)*	***669***	*45*
– *Insurance finance reserve*	***638***	—	***(612)***	—
Profit for the period	**(1,121)**	(1,089)	**31**	127
Debt instruments at fair value through other comprehensive income	**(461)**	(29)	**(1,343)**	(85)
Equity instruments designated at fair value through other comprehensive income	**—**	—	**(1)**	(1)
Insurance finance income/(expense) recognised in other comprehensive income	**411**	—	**1,250**	—
Other comprehensive expense for the period, net of tax	**(183)**	(183)	**167**	167
Total comprehensive (expense)/income for the period	**(1,354)**	(1,301)	**104**	208
Other Movements	**4,660**	4,682	**914**	926
Closing equity for the period	**11,504**	12,191	**8,198**	8,810

Transition drivers

Insurance finance reserve

The insurance finance reserve reflects the impact of the adoption of the other comprehensive income option in HSBC Assurance Vie. Underlying assets supporting these contracts are measured at fair value through other comprehensive income. Under this option, only the amount that matches income or expenses recognised in profit or loss on underlying items is included in finance income or expenses, resulting in the elimination of income statement accounting mismatches. The remaining amount of finance income or expenses for these insurance contracts is recognised in other comprehensive income. At the transition date an insurance finance reserve of EUR (612) million was recognised and following transition, gains net of tax of EUR 1,250 million and EUR 411 million were recorded in the six-months to 30 June 2022 and 31 December 2022 respectively. An offsetting fair value through OCI reserve of EUR 624 million recorded on transition represents the accumulated fair value movements on assets supporting these insurance liabilities, with associated losses net of taxes of EUR (1,323) million recorded within the fair value through other comprehensive income reserve during the six-months to 30 June 2022 and EUR (455) million during the six-months to 31 December 2022.

Consolidated balance sheet as at transition date and at 31 December 2022

	IFRS 17		IFRS 4	
	31 Dec 2022 €m	**1 Jan 2022 €m**	31 Dec 2022 €m	1 Jan 2022 €m
Assets				
Cash and balances at central banks	**59,734**	**38,063**	59,734	38,063
Items in the course of collection from other banks	**476**	**156**	476	156
Trading assets	**13,777**	**12,921**	13,777	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**12,170**	**13,345**	12,170	13,345
Derivatives	**59,960**	**39,634**	59,960	39,634
Loans and advances to banks	**7,233**	**6,832**	7,233	6,832
Loans and advances to customers	**42,340**	**59,612**	42,340	59,612
Reverse repurchase agreements – non-trading	**15,374**	**20,487**	15,374	20,487
Financial investments	**19,135**	**16,110**	19,135	16,110
Assets held for sale	**23,761**	**2**	23,761	2
Prepayments, accrued income and other assets	**23,548**	**14,595**	23,532	14,538
Current tax assets	**330**	**162**	330	162
Interests in associates and joint ventures	**—**	**2**	—	2
Goodwill and intangible assets	**140**	**86**	983	763
Deferred tax assets	**1,103**	**219**	879	37
Total assets	**279,081**	**222,226**	279,684	222,664
Liabilities and equity				
Liabilities				
Deposits by banks	**11,182**	**18,548**	11,182	18,548
Customer accounts	**83,692**	**70,144**	83,692	70,144
Repurchase agreements – non-trading	**6,655**	**8,731**	6,655	8,731
Items in the course of transmission to other banks	**528**	**280**	528	280
Trading liabilities	**17,509**	**16,247**	17,509	16,247
Financial liabilities designated at fair value	**9,049**	**13,733**	9,055	13,733
Derivatives	**55,726**	**35,895**	55,726	35,895
Debt securities in issue	**6,861**	**7,414**	6,861	7,414
Liabilities of disposal groups held for sale	**27,855**	**—**	27,855	—
Accruals, deferred income and other liabilities	**25,656**	**18,128**	25,629	18,122
Current tax liabilities	**113**	**66**	112	66
Insurance contract liabilities	**20,439**	**23,750**	20,364	23,698
Provisions	**286**	**234**	286	234
Deferred tax liabilities	**3**	**—**	16	—
Subordinated liabilities	**2,023**	**1,876**	2,023	1,876
Total liabilities	**267,577**	**215,046**	267,493	214,988
Equity				
Called up share capital	**1,062**	**491**	1,062	491
Share premium account	**5,264**	**2,137**	5,264	2,137
Other equity instruments	**1,433**	**750**	1,433	750
Other reserves	**1,261**	**1,665**	1,278	1,653
Retained earnings	**2,338**	**2,128**	2,998	2,636
Total shareholders' equity	**11,358**	**7,171**	12,035	7,667
Non-controlling interests	**146**	**9**	156	9
Total equity	**11,504**	**7,180**	12,191	7,676
Total liabilities and equity	**279,081**	**222,226**	279,684	222,664

13 Changes in scope of consolidation during the first half-year of 2023

There were no material changes in the composition of HSBC Continental Europe in the half-year to 30 June 2023.

14 Events after the balance sheet date

On 28 July 2023 HSBC Continental Europe completed the sale of its branch operations in Greece to Pancreta Bank SA. A loss of EUR 0.1 billion was recognised upon reclassification to held for sale in accordance with IFRS 5 in the second quarter of 2022.

In its assessment of events after the balance sheet date, HSBC Continental Europe has considered and concluded that no material events have occurred resulting in adjustments to the financial statements.

Statutory Auditors' review report on the interim financial information

PricewaterhouseCoopers Audit

63, rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO Paris

43-47, avenue de la Grande-Armée
75116 Paris

For the period from 1 January 2023 to 30 June 2023

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

To the Shareholders,

HSBC Continental Europe

38, avenue Kléber
75116 Paris

In compliance with the assignment entrusted to us by your General meetings and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed interim consolidated financial statements of HSBC Continental Europe, for the period from 1 January 2023 to 30 June 2023;
- the verification of the information contained in the interim management report.

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

1 Conclusion on the financial statements

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

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

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

Without qualifying our opinion, we draw your attention to the change in accounting policy concerning the application from January 1, 2023 of IFRS 17 "Insurance contracts" as set out in note 1 "Basis of preparation and significant accounting policies" as well as in the other notes to the appendix presenting figures relating to the impact of these changes.

2 Specific verification

We have also verified the information presented in the interim management report on the condensed interim consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Neuilly sur Seine and Paris, August 1, 2023

French original signed by

PricewaterhouseCoopers Audit	**BDO Paris**
Agnès Hussherr	Vincent Génibrel

Person responsible for the Universal Registration Document and its amendments

Mr Andrew Wild, Chief Executive Officer.

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

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

I certify, to the best of my knowledge, that the condensed accounts for the first half of the financial year have been prepared in accordance with the relevant accounting standards and give a fair view of assets and liabilities, financial position and result of the company and of all the entities included in the consolidation, and that the interim management report on pages 11 to 19 presents a fair review of the significant events that occurred during the first six months of the financial year, their impact on the accounts and the major related party transactions, as well as a description of the principal risks and uncertainties for the remaining six months of the financial year.

Paris, 1 August 2023

Andrew Wild, CEO

Persons responsible for auditing the financial statements

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

1 *Member of the* Compagnie Régionale des Commissaires aux comptes of Versailles.
2 *PricewaterhouseCoopers Audit represented by Agnès Hussherr starting from 2020.*
3 *Member of the* Compagnie Régionale des Commissaires aux comptes of Paris.
4 *BDO Paris represented by Vincent Génibrel starting from 2023.*

Cross-reference table

The following cross-reference table refers to the main headings of the 2019/980 delegated regulation supplementing the 2017/1129 regulation (Annex I and Annex II) implementing the directive known as 'Prospectus' and to the pages of the Universal Registration Document 2022 D.23-0634.

Sections of Annex I of the 2019/980 delegated regulation		Pages in the 2022 Universal Registration Document filed with the AMF on 1 Aug 2023	Pages in this amendment to the Universal Registration Document
1	**Persons responsible, third party information, experts' reports and competent authority approval**		
1.1 & 1.2	Persons responsible	page 293	page 73
1.3	Experts' reports	N/A	N/A
1.4	Third party information	N/A	N/A
1.5	Competent authority approval	N/A	N/A
2	**Statutory auditors**	page 294	page 74
3	**Risk factors**	pages 88 to 176	pages 20 to 45
4	**Information about the issuer**	page 290	N/A
5	**Business overview**		
5.1	Principal activities	pages 5 to 22 and 253	pages 4 to 19
5.2	Principal markets	pages 5 to 22 and 253	pages 4 to 19
5.3	Important events	pages 197, 253	pages 56 to 57
5.4	Strategy and objectives	pages 5 to 14	pages 4 to 10
5.5	Potential dependence	N/A	N/A
5.6	Founding elements of any statement by the issuer concerning its position	pages 5 and 22	pages 4
5.7	Investments	pages 242 to 244, 285 to 288, 297 to 298	N/A
6	**Organisational structure**		
6.1	Brief description of the group	pages 3 to 23, 276 to 277 and 285 to 288	N/A
6.2	Issuer's relationship with other group entities	pages 285 to 287	N/A
7	**Operating and financial review**		
7.1	Financial condition	pages 178, 180, 251 to 252	pages 46 and 48
7.2	Operating results	pages 14 to 22, 178 and 251	pages 11 to 19 and 46
8	**Capital resources**		
8.1	Issuer's capital resources	pages 182 and 268	page 50
8.2	Sources and amounts of the issuer's cash flows	page 181	page49
8.3	Borrowing requirements and funding structure	pages 88, 142 to 144, 147 to 149	pages 41 to 43
8.4	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect the issuer's operations	N/A	N/A
8.5	Sources of funds needed	N/A	N/A
9	**Regulatory environment**	pages 13 to 14 and 155 to 156	pages 9 to 10
10	**Trend information**	pages 5 to 9	pages 4 to 9
11	**Profit forecasts or estimates**	N/A	N/A
12	**Administrative, management and supervisory bodies and senior management**		
12.1	Administrative and management bodies	pages 25 to 31	N/A
12.2	Administrative and management bodies conflicts of interests	page 40	N/A
13	**Remuneration and benefits**		
13.1	Amount of remuneration paid and benefits in kind granted	pages 41 to 49, 203 to 207	N/A
13.2	Total amounts set aside or accrued by the issuer or its subsidiaries to provide for pension, retirement or similar benefits	pages 41 to 49, 203 to 207, 268 to 269	N/A
14	**Board practices**		
14.1	Date of expiration of the current term of office	pages 25 to 31	N/A
14.2	Information about members of the administrative, management or supervisory bodies' service contracts	N/A	N/A
14.3	Information about the issuer's audit committee and remuneration committee	pages 34 to 35, 37 to 38	N/A
14.4	Corporate governance regime	page 24	N/A
14.5	Potential material impacts on the corporate governance	N/A	N/A
15	**Employees**		
15.1	Number of employees	page 203	page 18
15.2	Shareholdings and stock options	pages 43 to 44	N/A
15.3	Arrangements involving the employees in the capital of the issuer	N/A	N/A
16	**Major shareholders**		
16.1	Shareholders holding more than 5 per cent of the share capital or voting rights	pages 290 to 292	N/A
16.2	Different voting rights	page 290	N/A
16.3	Control of the issuer	pages 25 to 26, 294	page 74

Sections of Annex I of the 2019/980 delegated regulation		Pages in the 2022 Universal Registration Document filed with the AMF on 1 Aug 2023	Pages in this amendment to the Universal Registration Document
16.4	Arrangements, known to the issuer, which may at a subsequent date result in a change in control of the issuer	N/A	N/A
17	**Related party transactions**	pages 50 to 53, 239 to 241, 242 to 244, 276 to 277	page 67
18	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information	pages 22, 177 to 244, 250 to 277, 296	N/A
18.2	Interim and other financial information	N/A	pages 53 to 71
18.3	Auditing of historical annual financial information	pages 245 to 249, 278 to 282	N/A
18.4	Pro forma financial information	N/A	N/A
18.5	Dividend policy	pages 211 and 292	page 57
18.6	Legal and arbitration proceedings	pages 161 to 163, 238 to 239, 274 to 275	pages 65 to 66
18.7	Significant change in the issuer's financial position	pages 22, 242 and 275	pages 71
19	**Additional information**		
19.1	Share capital	pages 237, 267 and 292	N/A
19.2	Memorandum and Articles of Association	pages 290 and 292	N/A
20	**Material contracts**	page 292	N/A
21	**Documents available**	page 290	N/A

Sections of Annex II of the 2019/980 delegated regulation		Pages in the 2022 Universal Registration Document filed with the AMF on 1 Aug 2023	Pages in this amendment to the Universal Registration Document
1	**Information to be disclosed about the issuer**	page 2	page 2

The following elements are included by reference:

- the consolidated financial statements for the year ended 31 December 2021 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 175 to 237 and 238 to 243 of the reference document D.22-0053 filed with the AMF on 23 February 2022; the information can be found here: https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2021/annual/pdfs/hsbc-continental-europe/220223-registration-document-and-annual-financial-report-2021-french-zip.zip
- the consolidated financial statements for the year ended 31 December 2022 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 177 to 244 and 245 to 249 of the Universal Registration Document D.23-0052 filed with the AMF on 22 February 2023; the information can be found here: https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2022/annual/pdfs/hsbc-continental-europe/230223-registration-document-and-annual-financial-report-2022-french-zip.zip

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

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

HSBC Continental Europe
38, avenue Kléber
75116 Paris
France

Management report	
Main events occurring during the first six months of 2023	pages 3 and 11 to 19
Main risks and uncertainties	pages 20 to 45
Principal related party transactions	page 67
Condensed consolidated financial statements	pages 53 to 71
Report of the Statutory Auditors on the interim financial information at 30 June 2023	page 72
Statement by person responsible	page 73

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