HSBC Continental Europe

Universal registration document and Annual Financial Report 2020

HSBC

Contents

Presentation of information

This universal registration document was filed on 24 February 2021 with the *Autorité des Marchés Financiers ('AMF')*, as the competent authority under Regulation (EU) n°2017/1129, without prior approval in accordance with Article 9 of that Regulation.

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

Declaration (Annex II - 1.2)

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Reference to the Registration Document

This document, named Universal Registration Document, refers to the Registration Document *(Annual Report and Accounts)* filed with the *AMF* on 19 February 2020 under reference number D.20-0071.

Cautionary statement regarding forward-looking statements

This *Universal Registration Document 2020* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group. Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements.

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

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

Disclaimer about translation

The translation in English of the universal registration document and annual financial report 2020, filed with the *Autorité des Marchés Financiers ('AMF')* on 24 February 2021 under reference number D.21-0075, is an accurate and faithful translation of the French version, with the exception of errors or translation discrepancies that may not constitute significant omissions or inaccuracies within the meaning of Article 212-3 of the *AMF* General Regulations.

Highlights

	Footnotes	31 Dec 2020	31 Dec 2019	31 Dec 2018
For the year (€m)				
Profit/(loss) before tax (reported basis)		**(945)**	(22)	45
Profit/(loss) before tax (adjusted basis)	1	**(331)**	240	89
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)	2	**2,121**	2,227	1,736
Profit/(loss) attributable to shareholders of the parent company (reported basis)		**(1,022)**	(39)	(17)
At year end (€m)				
Total equity attributable to shareholders of the parent company		**7,434**	8,443	6,555
Total assets		**237,099**	237,680	180,946
Risk-weighted assets		**46,113**	48,051	36,248
Loans and advances to customers (net of impairment allowances)		**56,225**	56,956	46,997
Customer accounts		**61,393**	57,550	41,906
Capital ratios %				
Common equity tier 1		**12.6**	13.5	13.1
Tier 1		**14.2**	15.0	14.5
Total capital		**17.3**	16.9	15.7
Performance, efficiency and other ratios (annualised %)				
Annualised return on average shareholders' equity	3	**(12.5)**	(0.5)	(0.6)
Pre-tax return on average risk-weighted assets (adjusted basis)		**(0.7)**	0.5	0.3
Cost efficiency ratio (adjusted basis)	4	**98.8**	83.5	95.4
Liquidity Coverage Ratio ('LCR')	5	**143**	152	128
Net stable Funding Ratio ('NSFR')	6	**136**	127	113

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 12 to 15.*
2 *Net operating income before change in expected credit losses and other credit and other credit risk provisions is also referred to as revenue.*
3 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
4 *Adjusted cost efficiency is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit and other credit risk provisions (adjusted).*
5 *While HQLA increased due to deposit growth, the LCR for HSBC Continental Europe declined, reflecting a reassessment of potential LCR outflows, particularly with respect to committed facilities.*
6 *Computed in respect of CRR II guidelines. 2018 ratio was calculated based on interpretation of BCBS 295.*

Performance highlights

HSBC Continental Europe's performance in 2020 was impacted by exceptional items, including the impairment of tangible and intangible assets and significant restructuring costs, and by the downturn of the global economy caused by the Covid-19 pandemic, which resulted in an increase in expected credit losses and other credit impairment charges. Historically-low interest rates in Europe and the cut in US rates in March 2020 dampened the net interest margin, in spite of higher average loan and deposit balances over 2020.

Notwithstanding that context, customer revenue remained resilient, and HSBC Continental Europe continued to support its customers and the wider economy, including through the granting of new loans under the French Government guarantee scheme and HSBC specific schemes for a full-year amount of EUR 6 billion. HSBC also improved its market share in debt capital markets and confirmed its position as a leading bank in Europe, ranking 2nd in the 'European Sovereign Bonds' category (Source: Dealogic). Moreover, HSBC's expertise was underlined in 2020 as it was conferred 'Western Europe Transaction Banking Award' from *The Banker*.

Reported consolidated loss before tax was EUR 945 million, down from a loss of EUR 22 million in 2019, including the impairment of tangible and intangible assets (EUR 500 million), significant restructuring costs (EUR 258 million), an unfavourable PVIF (Present Value of In-Force long term insurance business) movement (EUR 123 million), higher operating expenses and an increased cost of risk (EUR 289 million).

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 2,121 million, down from EUR 2,227 million in 2019. The decrease was driven by an unfavourable PVIF movement in Life Insurance of EUR 123 million. In addition, Wealth and Personal Banking income was impacted by persistently low rates and a decrease in net fee income as a consequence of adverse market conditions and lower customer activity in the context of the Covid-19 pandemic. This was offset by growth in Markets and Securities Services, corporate lending to Global Banking clients and a resilient performance in Commercial Banking.

Reported change in expected credit losses and other credit impairment charges was a charge of EUR 289 million, compared with a charge of EUR 128 million in 2019. The increase in the cost of risk was a direct consequence of the effects of the Covid-19 pandemic and reflected the deterioration in the current economic environment and the forward outlook.

Reported operating expenses were EUR 2,777 million, up from EUR 2,121 million in 2019, including the impairment of tangible and intangible assets for EUR 500 million, restructuring costs for EUR 258 million, and contributions to the Single Resolution Fund which increased by EUR 49 million compared with prior year, partly offset by lower recurring expenses.

Reported loss attributable to shareholders of the parent company was EUR 1,022 million in 2020, compared with a loss of EUR 39 million in 2019.

Presentation of activity and strategy

Responding to the new environment

In February 2020, HSBC Group announced a business update to increase return by re-allocating capital out of low return franchises into higher performing ones, reducing our cost base and streamlining our organisation.

For Europe, our strategy was adjusted in line with the business update to focus on international wholesale banking clients linked to our global network and a targeted wealth franchise. HSBC Group has reorganised its operating model to create one integrated European business spanning 20 markets, with a United Kingdom hub in London and a Continental Europe hub in Paris. To better reflect the purpose and nature of its activities, HSBC France changed its name on 01 December 2020 to become HSBC Continental Europe, at the same time as moving headquarters to 38 avenue Kléber in Paris.

We are continuing with the strategic review of our retail banking operations in France and are in negotiations in relation to a potential sale although no decision has yet been taken. If any sale is implemented, given the underlying performance of the French retail business, a loss on sale is expected.

The economic outlook deteriorated due to the outbreak of Covid-19 and a continued low interest rate environment. The health crisis changed the external environment and the way in which we operate, with the Group’s resilience highlighted through a seamless transition to remote working. The operating environment is difficult for our customers and our priority is to support them through a range of initiatives such as local government lending schemes and payment holidays.

HSBC Continental Europe remains committed to HSBC Group’s strategy and business model outlined in February 2020. Changes to the external landscape have further reinforced the transformation need for HSBC Continental Europe, aiming at becoming a simpler, more efficient and leaner organisation, as well as better positioning the Group to achieve its ambition to be the preferred international financial partner for our clients.

About HSBC Group

With assets of USD 3.0 trillion and operations in 64 countries and territories at 31 December 2020, HSBC is one of the largest banking and financial services organisations in the world. More than 40 million customers bank with HSBC and the Group employs around 226,000 full-time equivalent staff. HSBC has around 194,000 shareholders in 130 countries and territories.

Our purpose and ambition

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

HSBC values

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

We value differences

Seeking out different perspectives.

We succeed together

Collaborating across boundaries.

We take responsibility

Holding ourselves accountable and taking the long view.

We get it done

Moving at pace and making things happen.

HSBC Group strategy

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

- Focus on our strengths: in each of our global businesses, we will focus on areas where we are strongest and have significant opportunities for growth
- Digitise at scale: digitise to improve customer experience and reduce cost
- Energise for growth: we are moving to a leaner organisation with a dynamic culture where the best want to work
- Transition to net zero: we aim to be the leading bank for a transition to a sustainable future

About HSBC Bank Plc

With assets of GBP 681 billion at 31 December 2020, HSBC Bank plc is one of Europe's largest banking and financial services organisations. HSBC Bank plc employs around 16,300 people across its locations. HSBC Bank plc is the parent company of HSBC Continental Europe.

HSBC in Europe

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

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

- The London hub consists of the United Kingdom non-ring fenced bank, which provides overall governance and management for the Europe region as a whole and is a global centre of excellence for wholesale banking for the Group. In addition, the management team directly oversees our businesses in Armenia, Channel Islands & Isle of Man, and Malta;
- HSBC Continental Europe, comprises our Paris hub and its European Union branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden). We are creating an integrated and simpler Continental European bank anchored on Paris to better serve our clients;
- HSBC Germany Holdings GmbH serves the European Union's largest economy and one of the leading export nations globally. HSBC Germany's business proposition mirrors the importance of trade and global connectivity.

HSBC Bank Plc's strategy

In the February 2020 business update, the Group announced plans to remodel the European business to focus on its strengths. The aim is to build a strong and successful European business, focused on international wholesale banking clients linked to our global network and a targeted wealth franchise. HSBC Bank plc's strategic vision is to be the leading international bank for international corporates in Europe, focused primarily on clients that value our network with a focus on transactional banking and financing. This is complemented by a targeted wealth offering, through Wealth and Personal Banking business.

The transformation of Europe has begun and is now in full implementation. HSBC Bank plc strives to closely support customers and colleagues through this organisational change. Consistent with the Group, HSBC Bank plc paused client and employee transformation actions from late March to mid-June 2020, as clients required support through a variety of funding mechanisms during the early stages of the outbreak of Covid-19. Looking ahead, with continued low interest rates, anticipated increase in expected credit losses and uncertainty on the unwinding of government support schemes, HSBC Bank plc expects to be operating in a more challenging environment. Whilst Covid-19 has affected the phasing of HSBC Bank plc's transformation activity, it has not altered its strategy. The strategy involves a deep transformation of HSBC Group's business in Europe. As a part of the plan to transform, HSBC Bank plc is now managed as one integrated business with two main hubs in London and Paris. This aligns with United Kingdom and European Union legal entity and regulatory requirements for financial services, following the United Kingdom's withdrawal from the European Union.

HSBC Bank plc will remain a key centre of excellence for risk management and product expertise for the Group. Governments and businesses across Europe are at the forefront of international efforts to combat climate change and are world leaders in sustainable finance. HSBC shares these values and wants to help governments and businesses lead the transition to a sustainable future.

About HSBC Continental Europe

HSBC CONTINENTAL EUROPE

OUR AMBITION

The Group's ambition is to be the **preferred international financial partner for our clients**, supporting them and the sustained success of our communities.
HSBC Continental Europe offers our clients cutting-edge transactional and financing services that aims at helping them achieve their goals, whether it is growing their businesses in the single market or breaking into international markets, notably through the introduction of new banking products and services.

THE WAY WE DO BUSINESS

OUR PURPOSE

'Opening up a world of opportunity'

OUR COMMITMENTS

A. **Support customers, employees, communities to build a sustainable future**
Contribute to a low carbon and sustainable economy[1] and enhance employability and financial skills.

B. **Ensure fair and just treatment of customers and do not disrupt the orderly and transparent operation of financial markets**
Our Conduct Charter provides a framework for making difficult decisions to ensure positive customer outcomes and high ethical standards in the banking industry.

C. **Combat Financial Crime**
We have significantly strengthened our ability to combat financial crime through our Global Standards programme.

OUR STRATEGY

Leveraging HSBC Group's distinctive advantages…

- **Leading** international bank
- Broad access to **high growth markets**
- **Balance sheet** strength

To help clients to…

1. Grow their activities in **the European single market**
2. Access **international markets**

By…

- **Providing transaction banking products** to help clients **trade and invest internationally**
- **Offering** our **broader European proposition** through **new banking products and services**
- **Supporting** our clients to achieve their aims of **developing a sustainable future**
- **Facilitating our customer experience** by simplifying and digitizing our operational model

OUR RESOURCES

OUR HUMAN CAPITAL
- circa **1.0m clients** from individuals to large corporates
- **8,517 employees**[2] contributing to our expertise & know-how

OUR FINANCIAL CAPITAL
- **8 sustainability risk policies** applying to all financing activities
- **3,100 attendees** at sustainable finance training sessions

OUR INDUSTRIAL CAPITAL
- **126 years of expertise** in France*
- **AA- / Aa3 / A+** **top ratings** from the three main rating agencies

OUR SOCIAL & ENVIRONMENTAL CAPITAL
- **€2,121m** reported **net banking income**[3]
- **12.6%** **CET1 ratio**
- **€237bn** **total assets**

OUR CAPABILITIES
- **64 countries** in HSBC Group facilitating international connectivity
- Presence in **11 countries** in the European Union with strong international network
- **979 IT applications** used by the lines of business

* Only applies to France geographical perimeter
1. HSBC Continental Europe intends to align its financing and investments to the standards set by the Paris Agreement
2. Full Time Equivalent
3. Net Banking Income before loan impairment charges

HSBC | Together we thrive

HSBC CONTINENTAL EUROPE

OUR VALUE PROPOSITION TO THE EUROPEAN ECONOMY

GBM

We serve...
Major government, corporate and institutional clients

Through...
Advisory, vanilla and structured financing products, access to debt and equity markets, project finance, GLCM management, GTRF solutions, and financial markets

CMB

We serve...
From local small enterprises to global corporates

Through...
Working capital, term loans, payment services, trade facilitation, advisory, and financial markets

WPB

We serve...
Individuals and high net worth families, especially internationally oriented

Through...
Large range of banking products and services, including short/long-term financing and insurance and investments products, advising clients to manage and protect their wealth

OUR IMPACT

OUR CONTRIBUTION TO A LOW CARBON ECONOMY

- **$45bn** out of $93bn **of low carbon investment** funded by the Group since 2017[1]
- **€391m net inflows** to responsible investments
- **Best Bank for Sustainable Finance**[2]

ENVIRONMENT

- **0.16% exposure to coal** in our loan book
- **244** teq CO_2/$m **revenue** carbon intensity of equity portfolios
- **0.48** teq CO_2 **emissions** by FTE per year*

SOCIAL

- **29% women** in senior executive positions
- **12% attrition rate** In the talent pool*
- **48% voluntary take up in development programs** open to all*
- **98% suppliers** signed the Code of Conduct during the renewal process

CLIENT SATISFACTION

- **Best Traditional Bank**[3] **for Students***
- **+50 NPS** for the Customer Relations Centre from Retail*
- **6.8** /10 **satisfaction rate** given by CMB clients*
- **Best Global Private Bank**[4]
- **8.2** /10 **satisfaction rate** given by Private Banking clients*

FINANCIAL EDUCATION

- **328,186 people**[5] benefited from a programme supported by HSBC Continental Europe*

GOVERNANCE & SECURITY

- **98% employees** trained on Financial Crime Risk
- **30m transactions analysed** every month
- **0** significant **cyber-security breach**

* Only applies to France geographical perimeter

1. On a $100bn target by 2025 defined by HSBC Group
2. Euromoney Awards 2020, in Western Europe and globally (HSBC Group was rewarded for the second year in a row)
3. Prix Selectra in 2020 (HSBC Continental Europe was rewarded for the second year in a row in France)
4. Professional Wealth Management (Financial Times publication) at 2020 WealthTech Awards, for "digital customer experience" and "portfolio management technology"
5. Between 2018 and 2020, over reaching the 100,000 beneficiaries target

HSBC | Together we thrive

HSBC in Continental Europe

HSBC Continental Europe has a clear and focused strategy that is consistent with the HSBC Group's strategy, which seeks to provide clients with high value-added products and services while improving efficiency and implementing the highest standards in terms of compliance.

HSBC Continental Europe's strategy now integrates a broader European proposition that aims at helping clients achieve their goals, whether it is growing their businesses in the single market or breaking into international markets, notably through new banking products and services. HSBC France changed its name on 01 December 2020 to become HSBC Continental Europe, reflecting the purpose and wider nature of its activities, namely an integrated Continental European bank connecting our customers to HSBC's global network, and providing access to Continental Europe for HSBC's customers around the world.

HSBC strategy implemented in France and Continental Europe

The Group's strategy presented in February 2020 aims to improve the profitability of its activities in Europe (including the United Kingdom) by 2022, while reducing by 35 per cent its Risk Weighted Assets ('RWAs'). To achieve this, we are considering our product mix and are focusing on clients who value our international franchise.

Our transformation has focused on four pillars: (i) the strategic review of our retail operations which is ongoing and no decision has been made; (ii) the repositioning of our Global Banking and Markets ('GBM') activities for which a social plan has been approved by the French Ministry of Labour – associated employee exits will take place in 2021; (iii) the reshaping of our Commercial Banking ('CMB') activities and support functions through a collective voluntary departure plan; and, (iv) the transformation of the HSBC Continental Europe International / European Economic Area ('EEA') branches, which increases focus on client-related activities whilst better leveraging our Paris hub and the Group's Centres of Excellence. The adaptation of our operational model will enable a significant reduction of our cost base across Continental Europe.

HSBC Continental Europe continues to invest in Transaction Banking (Global Liquidity and Cash Management 'GLCM', Global Trade and Receivable Finance 'GTRF' and Foreign Exchange 'FX'), which is central to its strategy. In September 2020, The Banker named HSBC as 'Best Transaction Bank in Western Europe' in their annual Transaction Banking Awards.

This new structure for Continental Europe reflects a strong ambition: that of building a simpler and more efficient bank in Continental Europe, better connected to HSBC's global network, and offering cutting-edge transactional banking and financing services to the clients that value our network

HSBC Continental Europe's key principles to support this strategy

Europe is home to some of the best performing, forward thinking companies, ranging from entrepreneurial start-ups to large multinationals. The European Union is the world's largest trading bloc set in a dynamic market of approximately 450 million consumers. Europe's largest trade corridor is with Asia, which accounts for more than a third (35 per cent) of its total trade; and Europe-US is the largest bilateral trade and investment relationship in the world. Within this framework, HSBC Continental Europe's strategic vision is based on the following key principles.

Supporting our clients

HSBC Continental Europe supports businesses of all sizes across France and Continental Europe. HSBC Continental Europe offers a wide range of banking services including retail and private banking, corporate and investment banking, transaction banking, foreign exchange and fixed income. HSBC Continental Europe has c. 7,238 employees ('FTE's) in France and 1,279 employees in Continental Europe supporting HSBC Group and HSBC Continental Europe clients' needs. Further information as to how we have and will continue to support our stakeholders can be found on page 10 ('Supporting our clients throughout the Covid-19 outbreak').

Connecting to the world

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

Strengthening international connectivity

HSBC Continental Europe is committed to helping customers in the region thrive. With dedicated teams in France and 10 European markets, HSBC Continental Europe has extensive European capability across traditional trade and structured trade finance, cash management, payments and financing to serve the needs of all customers from Small Medium Enterprises ('SME's) to global multinationals.

Driving sustainable growth

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. HSBC Continental Europe shares these commitments and wants to help governments and businesses achieve their aims of developing a sustainable future for all. HSBC Continental Europe supports its clients, corporates, retail and investors, in transitioning to a low carbon economy, through the deployment of dedicated products and services. In addition to 25 green, socially responsible and sustainability bond issues, managed or co-managed by HSBC Continental Europe in 2020, a dedicated origination team works with our Commercial Banking customers to structures sustainable finance transactions, including through green and impact lending. This helps HSBC Continental Europe to align its financing and investment portfolio to the standards set by the Paris Agreement. Further discussion of our sustainable financing and Environmental, Social and Governance ('ESG') activities can be found on pages 53 to 79.

Impact of UK's withdrawal from the European Union on HSBC Continental Europe

The United Kingdom left the European Union on 31 January 2020 at midnight following the withdrawal agreement ratification, and entered a transition period until 31 December 2020. The transition period aimed at preparing the implementation of the withdrawal agreement and at negotiating an agreement on the future relationship between the European Union and the United Kingdom. A Trade and Cooperation Agreement between the European Union and the United Kingdom was agreed on 24 December 2020, signed by the Presidents of the European Union Commission and Council and the British Prime Minister on 30 December 2020, and ratified by the British Parliament on the same day. Prior to European Parliament ratification (expected in early 2021), the Trade and Cooperation Agreement provisionally comes into effect from 1 January 2021 onwards. The deal mainly focused on goods and services but also covered a wide range of other areas. However, it included limited elements on financial services.

The European Union and the United Kingdom agreed through a joint declaration to establish structured regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship between autonomous jurisdictions. Based on a shared commitment to preserve financial stability, market integrity, and the protection of investors and consumers, these arrangements are expected to allow for: bilateral exchanges of views and analysis relating to regulatory initiatives and other issues of interest; transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions; and enhanced cooperation and coordination including in international bodies as appropriate. Both parties are expected by March 2021 to agree a Memorandum of Understanding establishing the framework for this cooperation. The parties are expected to discuss, inter alia, how to move forward on both sides with financial equivalence determinations between the European Union and United Kingdom.

As a result, HSBC Group did not change its approach in relation to the United Kingdom's withdrawal from the European Union, and HSBC Group's programme – mainly impacting HSBC Continental Europe – has now been largely completed. It has focused on four main components: legal entity restructuring; product offering; customer migrations; and employees.

Legal entity restructuring

HSBC Group has worked on the assumption that passporting will no longer be possible following the United Kingdom's departure from the European Union and therefore transferred HSBC Bank plc branch business across the EEA to newly established branches of HSBC Continental Europe. This was completed in the first half of 2019. The Equities and Equity Research businesses have also been transferred from HSBC Bank plc Paris Branch to HSBC Continental Europe on 1 February 2020.

Product offering

To accommodate for customer migrations and new business after the United Kingdom's departure from the European Union, HSBC Continental Europe expanded its product offering in a wide range of areas such as in its Markets & Securities services franchise as well as in its Global Trade business. HSBC Continental Europe also enhanced its Cash Management solutions in France, the Netherlands and Ireland. A new branch has been created in Sweden to service our customers in the Nordic region.

Customer migrations

The United Kingdom's departure from the European Union has had an impact on EEA incorporated clients' operating models, including their working capital requirements, investment decisions and their access to financial markets infrastructure. HSBC Group's priority is to provide continuity of service, and while the Group's intention is to minimise the level of change for its customers, some EEA-incorporated clients are required to move from HSBC Bank plc in the United Kingdom to HSBC Continental Europe, or another EEA entity. HSBC Continental Europe has now onboarded almost all clients who we believe could no longer be serviced out of the United Kingdom.

Employees

The migration of EEA-incorporated clients from HSBC Bank plc required us to strengthen HSBC Continental Europe's local teams, and France in particular. This has been achieved largely through local hiring and transferring some staff from London to Paris to fill the required roles.

Our Global Businesses

The Group manages its products and services through its three global businesses: Global Banking and Markets ('GBM'), Commercial Banking ('CMB'), and Wealth Personal Banking [1]('WPB'); and Corporate Centre (Corporate Centre comprises Central Treasury, certain legacy assets, central stewardship costs, and interests in our associates and joint ventures). HSBC Continental Europe's businesses are supported by HSBC Operations, Services and Technology, and 11 global functions, including Risk, Finance, Compliance, Legal, Marketing and Human Resources.

Global Banking and Markets ('GBM')

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

Operating in 11 markets (France, Spain, Italy, Belgium, the Netherlands, Ireland, Greece, the Czech Republic, Poland, Luxembourg and Sweden) GBM brings together relationship managers and product specialists, to deliver financial solutions customised to suit our clients' business specific growth ambitions and financial objectives. We continue to work closely with colleagues in CMB, to provide a range of tailored products and seamless services that meet the needs of clients across the bank. GBM operates as an integral part of the global business and also contributes significant revenues to other regions through our European client base. HSBC Continental Europe continues to play its role as the strategic platform for euro-denominated rates products. Priorities for GBM in France are to be positioned as a top bank in key advisory and financing mandates and help clients seize international growth opportunities, leveraging its expertise and global network, connecting emerging and developed economies. We remain committed to deepening client

[1] Effective from the second quarter of 2020, Group HSBC's matrix organisational structure has been simplified by merging GPB and RBWM to form Wealth and Personal Banking ('WPB').

relationships, improving synergies across HSBC global businesses. GBM is underpinned by a focus on the highest standards of conduct and financial crime risk management.

In July 2020, a social plan was presented for the GBM business in France. Its objective is to preserve the bank's future competitiveness on the large corporate and financial market segment, to focus on our strategic positioning, while reducing the size of GBM business in France.

Commercial Banking ('CMB')

HSBC Continental Europe's Commercial Banking serves customers in 10 markets (France, Spain, Italy, Belgium, the Netherlands, Ireland, Greece, the Czech Republic, Sweden and Poland), ranging from small enterprises in France focused on their local market to corporates operating across borders. Whether it is an SME banking at one of HSBC Continental Europe's business centres in key cities in France, or one of the multinationals HSBC Continental Europe helps support across the region, CMB provides the tools and expertise that European businesses need to thrive.

Our network of relationship managers and product specialists work closely to meet customer needs, from term loans to region-wide treasury and trade solutions. We are fully committed to helping European businesses navigate change and seize export opportunities as the European Union strikes new trade agreements. With the importance of the United Kingdom and European Union trade relations to our customers, we are also providing guidance and continuity to assist businesses in adapting to changes brought by the United Kingdom's exit from the European Union.

Commercial Banking is at the centre of creating revenue synergies within the Group. We work closely with our Global Banking and Markets colleagues to provide expertise in capital finance and advisory solutions to support our Commercial Banking clients. Our trade teams within Commercial Banking also provide import and export finance solutions to Global Banking and Markets clients.

Leveraging major operations in France and full-service centres in hubs such as Ireland and the Netherlands, we provide corporates with the means to consolidate and simplify their European operations, enabling our customers to have greater visibility over their liquidity position and unlock efficiencies in their treasury structures. Our customers expect us to be innovative, whether it is a receivables finance solution to optimise working capital or support in pursuing the sustainability agenda. One way we are helping customers in their sustainability efforts is through their supply chains, by developing green financing solutions that are beneficial for buyer and seller alike.

CMB will continue to focus on its return on capital employed by repositioning its business to focus on strategic activities and clients valuing our international franchise. In order to improve operational efficiency, simplify processes and better leveraging the Group's Centres of Excellence, HSBC Continental Europe is also reshaping its CMB activities through a collective voluntary departure plan.

Wealth and Personal Banking ('WPB')

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

Our core retail proposition offers a full suite of products including personal banking products, such as current and savings accounts, mortgages and unsecured loans, credit cards (only applicable in Greece), debit cards and local and international payment services. Alongside this, WPB offers various propositions, including Jade, Premier, and Advance, as well as wealth solutions, financial planning and international services.

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

The strategic review of the retail operations is ongoing. No decision has been made.

Supporting our stakeholders through Covid-19

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

Customers

The Covid-19 outbreak has posed significant challenges to our customers worldwide. Our immediate priority is to do what we can to provide them with support and flexibility. This has included offering payment relief, assisting our customers to restructure their balance sheets and providing access to local government lending schemes.

We granted new loans under the French Government guarantee scheme and HSBC specific schemes for a full-year amount of EUR 6 billion. In CMB, we provided EUR 2.2 billion of facilities through market-wide schemes (5,100 requests approved), and helped them to navigate the current environment. CMB and GBM largely deployed electronic signature solutions, and Global Markets ensured a continuous coverage from its sales and traders. With customers doing more of their banking online, CMB and GBM have also extended their permanent remote services, including video calls with business relationship managers. In WPB, we put in place approximately 3,900 payment holidays corresponding to a balance of circa EUR 700 million of home loans and professional loans. The business has also granted circa 640 loans guaranteed by the state ('PGE') corresponding to approximately EUR 37 million outstanding loans. Business continuity and high service quality have been ensured throughout the period, with most of our branches open (following strict health guidelines protecting customers and colleagues) and enhanced technology to enable them to interact with us through digital tools (e-signature, video calls, webinars).

Employees

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

Regulators and governments

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

Geopolitical, economic and regulatory background and outlook

Economic background

In 2020, the Covid-19 pandemic led to a sudden and unprecedented recession in Europe of a magnitude not seen since WWII. After a resilient first quarter, lockdowns decided by several countries during the second quarter and the stop of many productive activities have translated into an historical trough for the economies.

However, in March, fiscal national authorities and the European Central Bank (ECB) have taken strong measures to support companies and jobs, but also to ensure that the financing of the real economy did not encounter particular issues. Massive public expenditure has been undertaken, pushing fiscal deficit and public debt to historical levels in many cases, while the ECB, being aware of the risk of a weak inflation, has made liquidity provisions more profitable for banks (TLTRO III) and has reinforced its quantitative easing policy by creating a purchase programme to urgently face the pandemic (Pandemic Emergency Purchase Programme, ('PEPP').

After an improvement in the health situation at the early summer, which led to a very sharp rebound in the economic activity during the third quarter of 2020 (but also with an historical rise in French unemployment rate over the same period), the spread of the virus accelerated once again during the autumn in Europe. In addition, new lockdowns have been put in place from October 2020, affecting again the domestic economic activity (albeit less severely than during the spring).

The support provided by public authorities has been substantial.At a European level, beyond the recovery plan worth 750 billion euros agreed by the Heads of state in July, the ECB, on 10 December 2020, expanded and extended the PEPP, while the accommodative stance of TLTROs III has been prolonged by mid-2022.

At the end of the year, hopes stemming from incoming vaccination campaigns and the economic recovery already in place in several Asian countries did not impede uncertainties from staying at an abnormally high level: the pandemic was still ongoing in many countries and, in France, corporate and consumer confidence indices have remained below their historical average. In Europe, productive investment has thus been impacted by the decrease in companies' profit margin ratio, while households' precautionary savings has been weighing on private consumption. Over the long run, potential growth risks being hampered in many economies by the expected rise in corporate bankruptcies and in jobseekers.

As a whole, despite support policies launched by national authorities to sustain the sectors hit by the pandemic (tourism, aeronautic industry and automobile in particular in France), the persistence of high uncertainties regarding the health situation makes a scenario of a V-shaped strong economic rebound unlikely.The decrease in the economic activity observed during the last quarter of 2020 will negatively impact the 2021 economic growth, against a backdrop where the room for manoeuvre for governments to protect companies and the job market have now become more limited.

Economic outlook

Despite a less deteriorated economic outlook in Asia than initially anticipated, 2021 may begin in Europe with a lower than expected growth. More importantly, uncertainties are growing regarding the scarring to be left by the recession on the medium-term potential growth rate of the economies, on public finances or private indebtedness, which have been significantly deteriorated in several countries.In spite of the progressive recovery in international trade and interest rates at historically low levels in some cases, the increase in households' saving ratio and the worsening in labour markets in Europe suggest that the level of the economic activity reached end 2019 may not be obtained again before 2022, or even after. A potentially more efficient management of the pandemic thanks to vaccines could represent an upside risk to the future economic growth, but the deal concluded end 2020 between the European Union and the United Kingdom did not address all remaining issues among partners. Last, the reinforced precautionary stance anticipated regarding consumption and investment over the coming quarters could give more importance to economic policies and reforms, whether French or European, which could be put in place over the same horizon.

Regulatory environment

Covid-19

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

In the EU, measures included a package known as the 'CRR Quick Fixes' enacted in June 2020. This represents an acceleration of some of the beneficial elements of the amendments to the Capital Requirements Regulation ('CRR2'), which were originally scheduled for June 2021, together with other amendments to mitigate the potential volatility in capital ratios arising from the pandemic. The amendments came into effect in June 2020, with the exception of the changes to the rules on software assets which came into effect on December 2020 following adoption by the European Commission of the European Banking Authority's ('EBA') regulatory technical standards.

Under previous rules, software assets were deducted in full from common equity tier 1 ('CET1'). Under the new rules, a portion of the asset is risk-weighted at 100 per cent and the remainder is subject to a CET1 deduction.

The European Central Bank ('ECB') made use of the new provision introduced in the CRR Quick Fixes and declared on September 2020 that exceptional measures justify the temporary exclusion of certain central bank exposures from the leverage ratio exposure measure until 27 June 2021.

The Basel Committee

The Basel Committee ('Basel') completed the Basel III Reforms in July 2020 when it published the final revisions to credit valuation adjustment ('CVA') framework. The package is scheduled to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs will be no lower than 72.5 per cent of those generated by the standardised approaches. The final standards will need to be transposed into the relevant local law before coming into effect.

There remains a significant degree of uncertainty about the impact of these changes due to the number of national discretions within Basel's reforms and the need for further supporting technical standards to be developed.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted amendments to the Capital Requirements Regulation ('CRR2'). This included the EU's implementation of the financial stability Board's ('FSB') requirements for total loss-absorbing capacity ('TLAC'), known in the EU as the minimum requirements for own funds and eligible liabilities ('MREL'), introducing changes to the own funds regime as well. The CRR2 will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the changes to market risk ('FRTB') rules, revisions to the standardised approach for measuring counterparty risk and the new leverage ratio rules. The CRR2 rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline.

The implementation of the remaining Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation. The EBA responded to the European Commission's request to update its previous advice on the impact of the package, taking into account the effect of the Covid-19 outbreak. Two scenarios have been considered. One scenario entails implementing the reforms in EU legislation in full alignment with Basel's standards and timeline i.e. 1 January 2023. The second scenario entails the implementation of the reforms in line with Basel's timeline but with CVA exemptions, the SME and infrastructure factors, and the historical loss multipliers set to 1 for operational risk. The subsequent EU implementation will be subject to an extensive negotiation process with the EU Council and Parliament.

The UK's withdrawal from the EU

As a result of the decision of the referendum on 23 June 2016, the UK left the EU on 31 January 2020. In order to smooth the transition, the UK remained subject to EU law during a transition period, which ended on 31 December 2020.

The agreement reached between the UK and the EU on 24 December 2020 ('EU-UK Trade and Cooperation Agreement') sets out preferential arrangements in various areas excluding financial services and related equivalences. As a result, the UK will be treated from 1 January 2021 onwards as a non-EU third country, the treatment of which is subject to equivalence assessments. In September 2020, the EU declared the UK CCP framework as temporarily equivalent (until 30 June 2022).

The end of the transition period also triggers an additional MREL requirement under CRR2 for HSBC Continental Europe as it becomes a subsidiary of a third-country parent entity.

Other developments

In November 2020, the ECB published its final guide on climate-related and environmental risks laying out its associated supervisory expectations on risk management and disclosures and will start the associated dialogue with banks from 2021.

Also in November 2020, the European Banking Authority ('EBA') published a consultation to incorporate Environmental Social and Governance ('ESG') risks into the governance, risk management and supervision of credit institutions and investment firms. This will inform the EBA's report on management and supervision of ESG risks and the EBA's assessment of the need for a dedicated prudential treatment.

Management report

Scope of the performance review

Use of non-GAAP financial measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRS'), as detailed in the Financial Statements starting on page 164. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort year-on-year comparisons. These are considered non-GAAP financial measures. Non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

Change in reportable segments since year end 2019

Effective from the second quarter in 2020, we simplified our organisation structure by merging Global Private Banking ('GPB') and Retail Banking and Wealth Management ('RBWM') to form Wealth and Personal Banking ('WPB'). We also renamed our Balance Sheet Management function as Markets Treasury to reflect the activities it undertakes more accurately and its relationship to our Treasury function more broadly. This followed realignments within our internal reporting and includes the reallocation of Markets Treasury from Corporate Centre to the global businesses. Comparative data has been re-presented accordingly and reflected in all the business performance commentary. The global business segmental results are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments', as detailed in 'Basis of preparation' in Note 1.1.(f): Segmental Analysis. Reconciliation of reported and adjusted performance are presented on pages 14 to 15.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the year-on-year effects of significant items that distort year-on-year comparisons. We use 'significant items' to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance. These items are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business.We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses year-on-year performance.

HSBC Continental Europe Consolidated Results

Summary consolidated income statement for the year ended

	Footnotes	31 Dec 2020 €m	31 Dec 2019 €m
Net interest income		**1,053**	1,095
Net fee income		**858**	778
Net income from financial instruments held for trading or managed on a fair value basis		**72**	30
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss		**161**	1,277
Changes in fair value of long-term debt and related derivatives		**(4)**	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss		**87**	153
Gains less losses from financial investments		**14**	12
Net insurance premium income		**1,367**	2,076
Other operating income/(expense)		**84**	187
Total operating income	1	**3,692**	5,607
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(1,571)**	(3,380)
Net operating income before change in expected credit losses and other credit impairment charges	1	**2,121**	2,227
Change in expected credit losses and other credit impairment charges		**(289)**	(128)
Net operating income		**1,832**	2,099
Total operating expenses	1	**(2,777)**	(2,121)
Operating profit/(loss)		**(945)**	(22)
Share of profit in associates and joint ventures		**–**	–
Profit/(loss) before tax		**(945)**	(22)
Tax expense		**(80)**	(17)
Profit/(loss) for the period		**(1,025)**	(39)
– shareholders of the parent company		**(1,022)**	(39)
– non-controlling interests		**(3)**	–

1 *Total operating income and expenses include significant items as detailed on pages 12 to 15.*

Net interest income was EUR 1,053 million in 2020, down from EUR 1,095 million in the previous year. Interest income decreased by EUR 90 million, from EUR 1,951 million to EUR 1,861 million. In an environment of persisting low and even negative interest rates, income on loans and interest income on bond portfolios of the life insurance subsidiary continued to be pressured downward. This was partly offset by the favourable decrease in interest expense of EUR 48 million to EUR -808 million compared with EUR -856 million last year, reflecting lower funding costs.

Net fee income was EUR 858 million in 2020, up from EUR 778 million in 2019. The increase was mainly due to higher fees from GBM with a good volume of transactions in the Capital Markets businesses and favourable fees from Equity activities. This was partly offset by a decrease in fee income on Wealth & Personal Banking driven by lower levels of customer activity and assets under management reflecting the impact of the Covid-19 pandemic.

Net income from financial instruments held for trading or managed on a fair value basis was EUR 72 million in 2020, up from EUR 30 million in 2019. This increase was mainly driven by the favourable market variation of options instruments held by the insurance company and the increase in Markets & Securities Services activities partly offset by an operational loss in the first half of year.

Net income from assets and liabilities of insurance measured at fair value through profit and loss was EUR 161 million down from EUR 1,277 million in 2019. The reduction reflected the change in the market value of assets held by the insurance company on behalf of its customers with respect to both unit-linked policies and Eurofund contracts. The counterpart of this decrease was the change in liabilities to policyholders.

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss totalled EUR 87 million in 2020, compared to EUR 153 million in 2019. Compared to prior year, the decrease was mainly due to unfavourable movements in the insurance portfolio.

Gains less losses from financial investments were broadly unchanged at EUR 14 million compared to EUR 12 million in 2019.

Net insurance premium income was EUR 1,367 million in 2020, down from EUR 2,076 million in 2019. This decrease was mainly related to reduction in insurance inflows particularly on Eurofund contracts during the year, in a context of deteriorated markets conditions due to Covid-19.

Other operating income was EUR 84 million down from EUR 187 million the previous year, impacted by the adverse variation of PVIF ('Present Value of In-force insurance long-term business') driven by adverse market conditions and lower interest rates.The variation of the accounting PVIF was a decrease of EUR 123 million in 2020 compared to an increase of EUR 113 million in 2019. This was partly offset by a EUR 100 million exceptional revenue booked in Corporate Centre and the reclassification of some intragroup recoveries from operating expenses to other operating income.

Net insurance claims incurred, benefits paid and movement in liabilities to policyholders were EUR -1,571 million in 2020, up from EUR -3,380 million in 2019. This increase is mainly driven by the change in the market value of assets recognised at fair value by the insurance subsidiary for both unit-linked and Eurofund contracts, and in relation with lower net insurance premiums.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 2,121 million, down from EUR 2,227 million in 2019. This decrease is mainly due to the adverse impact of the persistent low interest environment on net interest income, and the unfavourable variation of PVIF driven by both interest rates and markets conditions.

Change in expected credit losses and other credit impairment charges ('ECL') was EUR 289 million up from EUR 128 million in 2019. ECL increased in all Global Businesses, mainly driven by stage 3 provisions and from charges relating to the global impact of the Covid-19 outbreak on the deteriorated forward economic outlook.

Operating expenses amounted to EUR 2,777 million in 2020 up from EUR 2,121 million in 2019. This cost increase was mainly driven by the impairment of tangible and intangible assets for EUR 500 million, restructuring costs for EUR 258 million, Single Resolution Fund contribution for EUR 106 million (increasing by EUR 49 million compared with 2019) and the unfavourable perimeter effect related to both the integration of EEA branches last year and the transfer of Structured Equity Derivatives activities from HSBC Bank plc to HSBC Continental Europe this year.

Loss before tax was EUR 945 million, sharply down from a EUR 22 million loss in 2019, and included impairments of tangible and intangible assets, restructuring costs, an adverse PVIF movement and a incremental ECL charges.

Loss attributable to shareholders of the parent company in 2020 was EUR 1,022 million, down from EUR 39 million in the previous year.

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

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Year ended 31 Dec 2020				
	€m	**€m**	**€m**	**€m**	**€m**
Reported revenue	**622**	**700**	**664**	**135**	**2,121**
Significant revenue items[1]	**—**	**—**	**31**	**(99)**	**(68)**
Adjusted revenue	**622**	**700**	**695**	**36**	**2,053**
	Year ended 31 Dec 2019[2]				
Reported revenue	885	689	639	14	2,227
Significant revenue items	—	—	1	1	2
Adjusted revenue	885	689	640	15	2,229

1 *In 2020, significant items include EUR 31 million revenue loss related to GBM RWA reduction initiatives, EUR 100 million exceptional revenue recognised in other operating income and a negative EUR 1 million fair value movement on non qualifying hedges. In 2019, they included EUR 1 million debit valuation adjustment in GBM and EUR 1 million fair value movement on non qualifying hedges.*

2 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

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

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Year ended 31 Dec 2020				
	€m	**€m**	**€m**	**€m**	**€m**
Reported operating expenses	**(918)**	**(557)**	**(875)**	**(427)**	**(2,777)**
Significant cost items	**38**	**110**	**184**	**350**	**682**
– impairment of goodwill, intangibles and tangibles	**36**	**30**	**53**	**253**	**372**
– restructuring cost and other significant items	**2**	**80**	**131**	**97**	**310**
Adjusted operating expenses	**(880)**	**(447)**	**(691)**	**(77)**	**(2,095)**
	Year ended 31 Dec 2019 [1]				
Reported operating expenses	(840)	(606)	(583)	(92)	(2,121)
Significant cost items	8	174	30	48	260
– impairment of goodwill	—	169	—	—	169
– restructuring cost and other significant items	8	4	16	16	44
– costs associated with UK's exit from the EU	—	1	14	32	47
Adjusted operating expenses	(832)	(432)	(553)	(44)	(1,861)

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Net impact on profit before tax by business segment

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Year ended 31 Dec 2020				
	€m	**€m**	**€m**	**€m**	**€m**
Reported profit/(loss) before tax	**(318)**	**(47)**	**(288)**	**(292)**	**(945)**
Significant revenue items	**—**	**—**	**31**	**(99)**	**(68)**
Significant cost items	**38**	**110**	**184**	**350**	**682**
Adjusted profit/(loss) before tax	**(280)**	**63**	**(73)**	**(41)**	**(331)**
Net impact on reported profit and loss	**38**	**110**	**215**	**251**	**614**
	Year ended 31 Dec 2019 [1]				
Reported profit/(loss) before tax	45	14	(3)	(78)	(22)
Significant revenue items	—	—	1	1	2
Significant cost items	8	174	30	48	260
Adjusted profit/(loss) before tax	53	188	28	(29)	240
Net impact on reported profit and loss	8	174	31	49	262

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Adjusted profit/(loss) for the period

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Year ended 31 Dec 2020				
	€m	**€m**	**€m**	**€m**	**€m**
Net operating income before expected credit loss and other credit risk provisions	**622**	**700**	**695**	**36**	**2,053**
Change in expected credit loss and other credit risk provisions	**(22)**	**(190)**	**(77)**	**—**	**(289)**
Net operating income	**600**	**510**	**618**	**36**	**1,764**
Total operating expenses	**(880)**	**(447)**	**(691)**	**(77)**	**(2,095)**
Operating profit	**(280)**	**63**	**(73)**	**(41)**	**(331)**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**—**
Adjusted profit before tax	**(280)**	**63**	**(73)**	**(41)**	**(331)**
	Year ended 31 Dec 2019 [1]				
Net operating income before expected credit loss and other credit risk provisions	885	689	640	15	2,229
Change in expected credit loss and other credit risk provisions	—	(69)	(59)	—	(128)
Net operating income	885	620	581	15	2,101
Total operating expenses	(832)	(432)	(553)	(44)	(1,861)
Operating profit	53	188	28	(29)	240
Share of profit in associates and joint ventures	—	—	—	—	—
Adjusted profit before tax	53	188	28	(29)	240

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Adjusted loss before tax in 2020 stood at EUR -331 million, compared to a profit of EUR 240 million in 2019. This evolution was mainly driven by the impairment on tangible assets, the increase in expected credit losses and other credit impairment charges, the unfavourable PVIF movement and the higher contribution to the Single Resolution Fund and the impairment on tangible assets.

Adjusted net operating income before change in expected credit losses and other credit impairment charges was EUR 2,053 million in 2020, down from EUR 2,229 million in 2019. This was mainly driven by the unfavourable insurance PVIF variation, with a decrease of EUR 123 million in 2020 down from an increase of EUR 113 million in 2019, by the effect of persisting low and negative interest rates on the net interest margin and by the repercussions of the deteriorated economic and markets conditions particularly on wealth activities. This was partly offset by growing GBM revenues with an improved performance of Markets & Securities Services activities, along with favourable perimeter effect related to the transfer to HSBC Continental Europe of the European branches during 2019 and of the Structured Equity Derivatives activity in 2020.

Adjusted change in expected credit losses and other credit impairment charges was EUR 289 million up from EUR 128 million in 2019. ECL increased in all Global Businesses, mainly driven by stage 3 provisions and from charges relating to the global impact of the Covid-19 outbreak on the deteriorated forward economic outlook.

Adjusted operating expenses were EUR 2,095 million in 2020, up from EUR 1,861 million in 2019. The variation was mainly driven by the impairment of tangible assets for EUR 133 million, the increase by EUR 49 million of the contribution to the Single Resolution Fund and the unfavourable perimeter effect related to the transfer to HSBC Continental Europe of the European branches during 2019 and of the Structured Equity Derivatives activity in 2020.

Wealth and Personal Banking

Adjusted loss before tax at EUR 280 million was EUR 333 million below the 2019 profit reflecting a fall in net operating income before change in expected credit losses mainly explained by the adverse variation of PVIF, an increase in expected credit losses reflecting the impact of the Covid-19 outbreak and an increase in operating expenses primarily due to the impairment of tangible assets.

Adjusted net operating income before expected credit losses and other credit impairment charges was EUR 622 million down from EUR 885 million in December 2019. This was mainly the result of the adverse market impact in life insurance manufacturing (change in the PVIF movement of EUR -237 million). Interest income was below prior year with lower and negative interest rates pressuring the income on assets downward despite increased loans volumes and lower funding costs. Net fee income was also below prior year with negative impact of Covid-19 restrictions on customer activity penalising banking fees and wealth management fees.

Change in Expected Credit Losses and other credit impairment charges increased by EUR 22 million mainly from deterioration in the forward economic outlook due to the Covid-19 pandemic.

Adjusted Operating Expenses increased by EUR 48million to EUR 880 million primarily due to the impairment of tangible assets in part offset by productivity gains and cost management measures.

Loans and advances to customers, at EUR 24 billion in December 2020, increased by 1.8 per cent compared to December 2019 driven by new home loans business in spite of lower customer activity.

Total Assets under Management from customers were EUR 53 billion in December 2020, broadly stable compared to December 2019. The growth was mainly driven by increased customer deposits, with customer deposits at EUR 21 billion growing by 6 per cent compared to December 2019.This increase was partly offset by lower assets under management caused by the adverse equity market evolution since the beginning of the year.

Commercial Banking

Adjusted profit before tax was EUR 63 million down from EUR 188 million in 2019.

Adjusted net operating income before expected credit losses and other credit impairment charges amounted to EUR 700 million, increasing by EUR 11 million compared to 2019 on income from lending partly offset by the unfavourable impact of historically low interest rates.

Adjusted change in expected credit losses and other credit impairment charges was EUR 190 million, up from from EUR 69 million in 2019 as the Covid-19 pandemic impacted customers.

Adjusted operating expenses rose by EUR 15 million to EUR 447 million, mainly due to higher IT, Risk and Compliance costs.

In 2020, loans and advances to customers remained broadly unchanged. Loan balances of EUR 18.1 billion included EUR 2.2 billion of new loans under the French Government guarantee scheme. The slight decrease was mainly driven by short term loans and lower drawings on revolving credit facilities.

Deposits grew 14 per cent to EUR 27 billion, with significant inflows linked to the Covid-19 pandemic.

Global Banking and Markets

Adjusted loss before tax in Global Banking and Markets was EUR 73 million compared to a profit of EUR 28 million last year.

Adjusted revenue increased to EUR 695 million compared to EUR 640 million last year. Markets & Securities Services revenue grew compared to 2019 driven by improved performance on Securities Financing and Debt Trading and Financing. Banking revenues declined due to lower business activity in certain lending products and higher Credit default swaps ('CDS') premiums, partly offset by strong performances in corporate lending activity, Capital Markets and Euroclearing businesses, all benefiting from the broader scope of European clients served and increased activity.

Adjusted change in expected credit losses and other credit impairment charges remained high at EUR 77 million, with EUR 18 million unfavourable variation vs prior year mainly driven by Stage 2 provision, while Stage 3 remained high in the context of the Covid-19 crisis.

Adjusted operating expenses amounted to EUR -691 million, up EUR 138 million compared to prior year, due to a significant increase in the contribution to the European Single Resolution Fund, higher IT costs and unfavourable impact of perimeter change related to the transfer of Structured Equity Derivatives activity headcount from HSBC Bank plc Paris Branch to HSBC Continental Europe.

Loans and Advances to Customers decreased by EUR 0.9 billion in comparison with end of 2019 as lower business activity in certain lending products more than offset the increased corporate lending in response to Covid-19. GBM supported its clients through the Covid-19 crisis, notably participating in significant state backed facilities with more than EUR 2 billion of lending provided.

Customer Deposits decreased by EUR 0.9 billion in comparison with end of 2019, predominantly driven by lower term deposits.

Corporate Centre

Adjusted loss before tax was EUR 41 million in 2020 compared to EUR 29 million loss in 2019.

Adjusted net operating income before expected credit losses and other credit impairment charge was EUR 36 million in 2020 versus EUR 15 million in 2019. The increase reflected higher recharges to other entities in HSBC Group.

Adjusted operating expenses were EUR 77 million in 2020 compared with EUR 44 million in 2019, driven by the impairment of tangible assets.

Summary consolidated balance sheet

		At	
		31 Dec 2020	31 Dec 2019
	Footnotes	**€m**	€m
Total assets		**237,099**	237,680
Cash and balances at central banks		**29,508**	19,463
Trading assets		**12,954**	14,837
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**11,648**	11,957
Derivatives		**56,475**	45,724
Loans and advances to banks		**6,781**	6,798
Loans and advances to customers		**56,225**	56,956
Reverse repurchase agreements – non-trading		**21,522**	45,973
Financial investments		**19,167**	16,987
Other assets		**22,816**	18,982
Assets held for sale		**3**	3
Total liabilities		**229,640**	229,209
Deposits by banks		**17,204**	12,113
Customer accounts		**61,393**	57,550
Repurchase agreements – non-trading		**10,984**	20,213
Trading liabilities		**17,828**	23,262
Financial liabilities designated at fair value		**16,892**	18,953
Derivatives		**55,714**	45,115
Debt securities in issue		**3,605**	9,782
Liabilities under insurance contracts		**23,228**	23,292
Other liabilities		**22,792**	18,929
Total equity		**7,459**	8,471
Total shareholders' equity		**7,434**	8,443
Non-controlling interests		**25**	28

Total assets were EUR 237 billion at 31 December 2020, broadly stable compared to 31 December 2019.

Assets

HSBC Continental Europe's deposits at the central banks grew by EUR 10 billion to EUR 29.5 billion in 2020 following an increase of customer deposits and the issuance of TLTRO III funding.

The trading portfolio was reduced by EUR 2 billion to EUR 13 billion. Financial assets mandatorily measured at fair value through profit and loss remained stable at EUR 12 billion.

Derivative instruments were EUR 10.7 billion higher at EUR 56.5 billion resulting from lower interest rate.

Loans and advances to customers remained broadly steady at EUR 56 billion.

Reverse repurchase agreements – non trading – stood at EUR 22 billion in 2020 compared to EUR 46 billion in 2019, due to reduced positions with banks and customers.

Liabilities

Deposits by banks increased by EUR 5 billion to EUR 17.2 billion, mainly driven by the issuance of TLTRO III and repayment of TLTRO II.

Customer deposits rose from EUR 57.6 billion to EUR 61.4 billion, mainly driven by the growing deposits from WPB and CMB customers in France.

Repo securities, at EUR 11 billion, decreased by EUR 9 billion due to reduced positions on banks and customers.

Derivatives, at EUR 55.7 billion, increased by EUR 10.6 billion, due to the interest rate decrease.

Equity

Shareholders' equity stood at EUR 7.4 billion, down from EUR 8.4 billion in 2019.

The CET1 (Common Equity Tier 1) ratio was 12.6 per cent at 31 December 2020 and a total capital ratio was 17.3 per cent.

Liquidity and funding

Outstanding medium- and long-term funding and the bank's main financing transactions in 2020 are presented in the liquidity and financing management section on pages 132 to 135.

The short-term ratio (liquidity coverage ratio or LCR) was 143 per cent and the long-term ratio (net stable funding ratio or NSFR) was 136 per cent.

Balance Sheet Information

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	€m	€m	€m	€m	€m
At 31 Dec 2020					
Loans and advances to customers	***24,204***	***18,075***	***14,523***	***(577)***	***56,225***
Customers accounts	***21,038***	***27,023***	***14,065***	***(733)***	***61,393***
At 31 Dec 2019 [1]					
Loans and advances to customers	*23,773*	*18,378*	*15,411*	*(606)*	*56,956*
Customers accounts	*19,887*	*23,655*	*14,986*	*(978)*	*57,550*

1 A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.

Profit before tax by country

	At 31 Dec 2020				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	€m	€m	€m	€m	€m
France	(303)	(148)	(292)	(270)	(1,013)
Belgium	—	1	1	—	2
Czech Rep	—	16	1	(1)	16
Greece	(15)	—	(7)	(1)	(23)
Ireland	—	17	6	(1)	22
Italy	—	1	2	(6)	(3)
Luxembourg	—	—	(6)	(1)	(7)
Netherlands	—	39	4	—	43
Poland	—	10	10	(1)	19
Spain	—	17	14	(11)	20
Sweden	—	—	(2)	—	(2)
United Kingdom	—	—	—	—	—
Others	—	—	(19)	—	(19)
Profit/(loss) before tax	**(318)**	**(47)**	**(288)**	**(292)**	**(945)**
	At 31 Dec.2019[1]				
France	51	(63)	(77)	(65)	(154)
Belgium	—	—	1	—	1
Czech Rep	—	27	1	(1)	27
Greece	(7)	(2)	17	(4)	4
Ireland	—	16	9	—	25
Italy	—	3	8	(1)	10
Luxembourg	—	—	8	—	8
Netherlands	—	26	4	(1)	29
Poland	—	(8)	8	(4)	(4)
Spain	—	15	22	(1)	36
Sweden	—	—	(1)	—	(1)
United Kingdom	—	—	(4)	—	(4)
Others	1	—	1	(1)	1
Profit/(loss) before tax	45	14	(3)	(78)	(22)

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Net Interest Margin

Net interest margin is calculated by dividing net interest income as reported in the income statement by the average balance of interest-earning assets.

Net interest margin was 69 basis points ('bps') in 2020 compared with 78 bps in 2019. The persisting low and even negative interest rate environment pushed the gross interest yield downward, which was only partly offset by lower cost of funds.

Net Interest Income

	2020	2019
	€m	€m
Interest income	1,861	1,951
Interest expense	(808)	(856)
Net interest income	**1,053**	1,095
Average interest-earning Assets	153,191	140,493
	%	%
Net interest margin [1]	0.69	0.78

1 *Net interest margin is net interest income expressed as an annualised percentage of average interest-earning assets.*

Summary of interest income by asset type

	2020			2019		
	Average balance	**Interest income**	**Yield[1]**	Average balance	Interest income	Yield[1]
	€m	**€m**	**%**	€m	€m	%
Short term funds and loans and advances to banks	**34,734**	**(117)**	**(0.34)**	22,933	(60)	(0.26)
Loans and advances to customers	**58,805**	**898**	**1.53**	55,116	969	1.76
Reverse repurchase agreements – non trading	**27,987**	**(412)**	**(1.47)**	34,308	(472)	(1.38)
Financial investments	**19,156**	**283**	**1.47**	16,917	325	1.92
Other interest-earning assets	**12,509**	**7**	**0.05**	11,219	33	0.30
Total interest-earning assets	**153,191**	**659**	**0.43**	140,494	795	0.57
Trading assets and financial assets designated or mandatorily measured at fair value [2]	**19,535**	**204**	**1.04**	22,083	300	1.36
Expected credit losses provision	**(770)**	**–**		(690)		
Non-interest-earning assets	**77,328**	**–**		68,442		
Total	**249,284**	**863**	**0.35**	230,328	1,095	0.48

1 *Yield has been calculated taking into account negative interest on assets recognised as interest expense in the income statement. 2019 yield have been re-presented accordingly.*
2 *Interest income arising from trading assets is included within 'Net trading income' in the income statement.*

Summary of interest expense by type of liability and equity

	2020			2019		
	Average balance	**Interest expense**	**Cost[1]**	Average balances	Interest expense	Cost[1]
	€m	**€m**	**%**	€m	€m	%
Deposits by banks	**16,748**	**(87)**	**(0.52)**	12,569	(7)	(0.05)
Customer accounts	**23,456**	**28**	**0.12**	20,176	100	0.50
Repurchase agreements – non trading	**12,659**	**(356)**	**(2.82)**	18,160	(433)	(2.39)
Financial liabilities designated at fair value – own debt issued	**11,544**	**(20)**	**(0.18)**	11,023	(3)	(0.03)
Debt securities in issue and subordinated debts	**8,075**	**6**	**0.08**	6,596	9	0.13
Other interest-bearing liabilities	**13,264**	**35**	**0.26**	10,174	33	0.33
Total interest-bearing liabilities	**85,746**	**(394)**	**(0.46)**	78,697	(301)	(0.38)
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued) [2]	**28,048**	**444**	**1.58**	30,547	480	1.57
Non-interest-bearing current accounts	**39,430**			32,825		
Total equity and other non-interest bearing liabilities	**96,060**			88,259		
Total	**249,284**	**50**	**0.02**	230,328	179	0.08

1 *Cost has been calculated taking into account negative interest on liabilities recognised as interest income in the income statement. 2019 cost have been re-presented accordingly.*
2 *Interest expense arising from trading liabilities is included within 'Net trading income' in the income statement.*

Post-balance sheet events

New products and services are offered to customers of the HSBC Group in Continental Europe on a regular basis. Information is available on the Group's websites, in particular in the press releases posted at www.hsbc.fr.

There has been no significant change affecting the financial or sales situation of HSBC Continental Europe or its subsidiaries since 31 December 2020 until the Board of Directors of 23 February 2021 which approves these financial statements.

Historical data (unaudited)

	2020 €m	2019 €m	2018 €m	2017 €m	2016 €m
HSBC Continental Europe					
Profit before tax	**(945)**	(22)	45	219	432
Profit attributable to shareholders	**(1,022)**	(39)	(17)	177	310
At 31 Dec					
Shareholders' equity	**7,434**	8,443	6,555	5,676	5,842
Loans and advances to customers and banks	**63,006**	63,754	53,194	49,699	44,706
Customer accounts and deposits by banks	**78,597**	69,663	52,734	51,574	46,281
Total Balance Sheet	**237,099**	237,680	180,946	167,544	169,423
Number of employees (full-time equivalents)[3]	**8,517**	9,472	8,829	8,337	8,647
Ratios					
– Total capital ratio[1]	**17.3%**	16.9%	15.7%	14.1%	13.2%
– Common Equity Tier One Ratio[1]	**12.6%**	13.5%	13.1%	13.1%	13.2%
– Cost efficiency ratio (reported basis)[2]	**130.9%**	95.2%	98.3%	78.6%	72.7%

1 *Capital ratios from 2018 are reported under fully loaded and no longer under transitional.*
2 *The cost efficiency ratio in 2016 does not include the depreciation of goodwill.*
3 *The increase in 2019 is due to acquisition of seven branches: Madrid branch, Milan branch, Ireland branch, Netherlands branch Belgium branch, Prague branch with effect from 1 February 2019 and Luxembourg branch from 1 March 2019.*

Credit ratings

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

	Standard & Poor's	Moody's	FitchRatings
Long-term Senior preferred	A+	Aa3	AA-
Outlook	Stable	Negative	Negative
Short term	A-1	P-1	F1+

During the year 2020:

- Fitch has put a number of HSBC entities including HSBC Continental Europe under negative outlook in relation with the Covid-19 outbreak. At the same time, according to a methodology change, the senior long term ratings of operating entities including HSBC Continental Europe have been upgraded to AA- from A.
- S&P has downgraded the long term ratings of certain HSBC entities including HSBC Continental Europe on lowered earnings prospects and expected extensive restructuring.

Other information on HSBC Continental Europe

Information on supplier payable amounts schedule

(Articles L. 441-14 and D. 441-4 of the French Commercial code)

Article D.441 – II: Received invoices by HSBC Continental Europe S.A.[1] subject to late payment delays during the year

	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 91 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	31,716					**5,942**
Amount of invoices including VAT (in €k)	742,730	83,438	24,140	8,367	27,359	143,303
Percentage of total purchasing in the year	84%	9%	3%	1%	3%	16%
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	2,566					
Amount of excluded invoices including VAT (in €k)	61,541					
(C) Suppliers' payment terms (contractual or legal terms)						
Payment terms used to assess the late payments	Contractual terms: 45 days					

1 *Excluding the European branches of HSBC Continental Europe SA.*

Information on client receivable amounts schedule

(Articles L. 441-14 and D. 441-4 of the French Commercial code)

Article D.441 – I: Issued invoices by HSBC Continental Europe S.A.[1] subject to late payment delays at year-end

	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 91 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	93					**695**
Amount of invoices excluding VAT (in €k)	27,109	18,157	6,348	263	4,708	29,476
Percentage of total revenue of the year	1.88%	1.25%	0.44%	0.02%	0.33%	2.04%
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	—					
Amount of excluded invoices excluding VAT (in €k)	—					
(C) Clients' payment terms (contractual or legal terms)						
Payment terms used to assess the late payments	Contractual terms: 30 to 45 days					

1 *Excluding the European branches of HSBC Continental Europe SA.*

This information does not include banking transactions and certain related transactions as HSBC Continental Europe considers that they do not fall within the scope of the information to be produced.

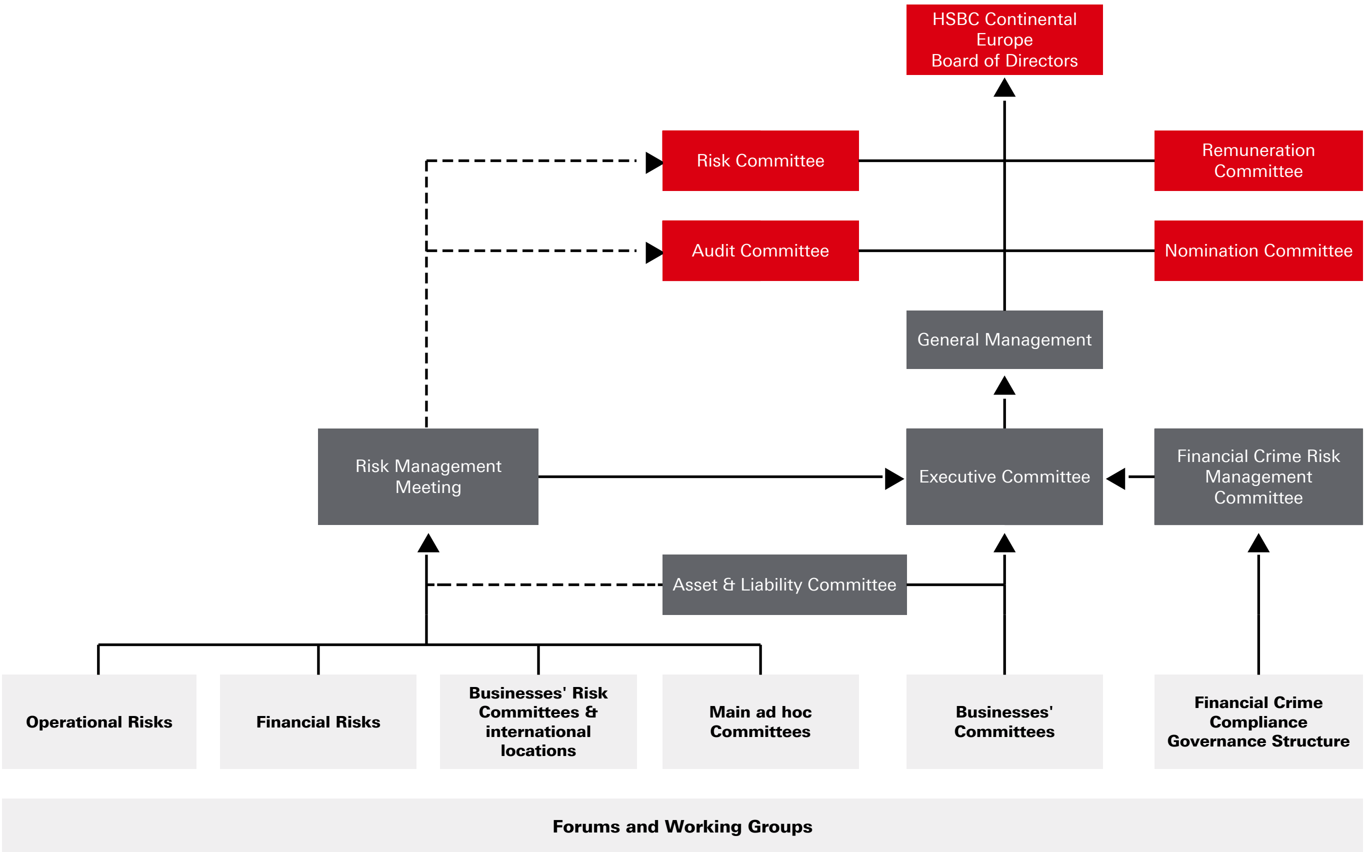
Corporate Governance report

Under article L. 225-37 of the French Commercial Code, the Board of Directors presents a report on Corporate Governance attached to the management report referred to in article L. 225-100 to the shareholders' general meeting.

This report was submitted to the Board Committees at their meetings held on 29 January, 9 February and 10 February 2021.

Corporate governance bodies and regime

Governance bodies structure



Board composition is detailed and commented on pages 23 and following of this Corporate Governance report.

Membership, duties and work of the Board Committees are presented in relevant sections of this Corporate Governance report (see pages 33 to 37).

General Management and Executive Committee membership is detailed on page 37 and following of this Corporate Governance report.

Risks, issues or other matters requiring attention from the management body may be escalated through line management, or through the committee structure described above.

In particular regarding the information flow on risk, the HSBC Continental Europe Risk Management Meeting, which is chaired by the Chief Risk Officer and includes the Chief Executive Officer, the Deputy Chief Executive Officers and other members of the Executive Committee, is the overarching Committee overseeing risk management and permanent control. Next to it, the committee in charge of overseeing more specifically the Financial Crime Risk, Sanctions Risk and Fraud Risk, is the Financial Crime Risk Management Committee.

Relevant information, in particular on risk, is shared on a quarterly basis with the Board and its Audit and Risk Committees by the bank's senior management.

Corporate Governance code

In accordance with the requirements under article L. 22-10-10 of the French Commercial Code, it is stated that, given the HSBC Continental Europe's specific situation of 99.9 per cent owned subsidiary of the HSBC Group and which capital securities are not admitted to trading on a regulated market, HSBC Continental Europe does not refer to any corporate governance code drawn up by business representative organisations, but refers to the Corporate Governance Code for HSBC Group companies (the 'Code'), adopted by HSBC Continental Europe Board of Directors at its meeting of 14 February 2014. The aim of this code is to provide consistent and high standard Corporate Governance practices throughout the HSBC Group.

Information on governance structure, Chairman's role, on Board's composition, functioning, organisation and work, and on Executive Directors' compensation are presented in the relevant sections of this report.

Board of Directors[2]

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation. In 2020, the Board reviewed and updated these internal rules at its meeting held on 6 February.

The Board's internal rules define the composition, the duty and the conducting of the Board meetings and the information to the Board of Directors. They indicate the main duties and arrangements for exercising the function of Chairman, and the main duties of the Chief Executive Officer and of the Effective Managers. Furthermore, the Board's internal rules define, in accordance with the HSBC Group rules, the duties and responsibilities of the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee (as stipulated below in the parts related to each of these Committees' assignments). They also incorporate ethical rules and rules regarding conflicts of interest prevention and management to be followed by the Directors of HSBC Continental Europe, setting out their rights and duties.

Chair of the Board of Directors

Duties of the Chairman of the Board

The Chairman of the Board has a duty to ensure the proper functioning of HSBC Continental Europe's governing bodies. In particular, he conducts the work of the Board and coordinates it with that of the specialised Committees. He ensures that the Directors are in a position to perform their duty, and in particular, ensures that they are in possession of all of the information they require for the discharge of their duties.

Presentation of the Chairman of the Board of Directors

Samir Assaf

Chairman of the Board of Directors

Member of the Nomination Committee and of the Remuneration Committee

First elected: 2012. Last re-elected: 2019. Term ends: 2022

Principal position: *Group Managing Director*, Chairman of Corporate and Institutional Banking, HSBC Group[3].

Other directorships in the HSBC Group: Director, The Saudi British Bank[3]. Directorship expired in 2020: Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG[3].

Other directorships outside of the HSBC Group: Board member, Alfanar. Montaigne London, Board member (since June 2020).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1960. Master's degree in Banking and Finance from the Panthéon-Sorbonne University and graduated from the *Institut d'Etudes Politiques de Paris*. He joined CCF in 1994 from Total Group, where he was Head of Treasury. At CCF, he was appointed Head of Markets in 1998. He joined HSBC in 2000 when the bank acquired CCF. He started at HSBC as Head of Global Markets at HSBC Continental Europe and Head of Fixed Income Trading, Europe. In 2006, he was promoted to Head of Global Markets, Europe and Middle-East and in 2007 he became Deputy Head of HSBC Group Global Markets. In 2008, he became Head of Global Markets and a Group General Manager. He took the managerial direction of the Global Research in 2009 and extended his responsibilities to Securities Services in 2010. From 2011 to March 2020, he served as Group Managing Director, a member of the Group Management Board and Chief Executive Officer Global Banking and Markets, HSBC Group. Since November 2012, he has been the Chairman of the Board of Directors of HSBC Continental Europe. He was also a founding member of the Association of the Financial Markets in Europe and, since 2012, a member of the Financial Markets Advisory Committee of the International Monetary Fund. Since 1 March 2020, he has been Chairman of Corporate and Institutional Banking of the HSBC Group.

2019	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC Continental Europe. Director: The Saudi British Bank. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. **Directorship outside of the HSBC Group:** Board member: Alfanar.
2018	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC Continental Europe. Director: The Saudi British Bank. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.
2017	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC Continental Europe. Director: The Saudi British Bank. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.
2016	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC Continental Europe. Director: The Saudi British Bank. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.

Composition of the Board

On 31 December 2020, the Board of Directors comprised 15 Directors, of which 12 were appointed by the Shareholders' General Meeting and three were elected by employees. A representative of the Social and Economic Council attends Board meetings, without voting rights.

The Directors were elected by Shareholders' General Meeting or by employees have a three-year term of office.

2 *As far as their direstorship at HSBC Continental Europe is concerned, the address of HSBC Continental Europe's Directors and Senior Executives is the company's registered office, 38 avenue Kléber, 75116 Paris, France.*

3 *Listed company.*

The Board membership complies with the policies the Board had implemented on the assessment of the suitability of members of the management body and key function holders and on diversity.

Changes occurred in the Board composition during 2020 and early 2021

At its meeting on 6 February 2020, the Board took note of the resignation of Jacques Veyrat from his directorship.

The Nomination Committee reviewed the position of the Directors whose term of office expired at the Annual General Meeting on 13 March 2020: Jean Beunardeau and Lucile Ribot. Further to the reassessment of their suitability and upon recommendation of the Board, the Board decided to propose their renewal.

At the Annual General Meeting held on 13 March 2020, shareholders re-elected those Directors.

Further to James Emmett's resignation from his directorship, the Board co-opted Nuno Matos as a Director at its meeting on 30 April 2020. The Shareholders' General Meeting on 12 November 2020 ratified this co-optation.

On 23 October 2020, the Board took note of the death of Philippe Purdy, a Director elected by employees, on 9 September 2020.

At its meeting on 12 February 2021, the Board took note of the resignation of Laurence Rogier from her directorship.

Further to Nuno Matos's resignation from his directorship, the Board co-opted Stephen O'Connor as a Director at its meeting on 12 February 2021. This co-optation will be submitted to the ratification of the Annual General Meeting to be held on 11 March 2021.

Presentation of the Directors as of 13 February 2021

Jean Beunardeau

Director and Chief Executive Officer

First elected: 2008. Last re-elected: 2020. Term ends: 2023

Principal position: Chief Executive Officer, HSBC Continental Europe. Group General Manager, HSBC Group[4].

Other directorships in the HSBC Group: Chairman of the Board, HSBC Global Asset Management (France). Director, HSBC Assurances Vie (France)*.* Director, *Valeurs Mobilières Elysées. Chairman, Fondation HSBC pour l'Education.* Directorship expired in 2020: Chairman of the Board, HSBC Assurances Vie (France).

Other directorships outside of the HSBC Group: Member of the Supervisory Board, *Société Anonyme des Galeries Lafayette. Chairman Académie France-Chine.* Director, *Fondation de France* (permanent representative of HSBC Continental Europe). Treasurer, A*ssociation du Golf de Saint-Cloud. Member of the Great Council, Cercle de l'Union Interalliée*. Directorship expired in 2020: Member of the Supervisory Board, *Fonds de garantie des dépôts et de résolution* (permanent representative of HSBC Continental Europe).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1962. Graduated from Ecole Polytechnique, Telecom Engineer and Master of Economics, he began his career at the Ministry of Finance, at the Forecasting Department then at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC Continental Europe in 1997 in Corporate Finance and became Managing Director in 2000.

He was appointed Co-Head of Corporate Investment Banking and Markets, mainly in charge of Corporate and Investment Banking in 2004. In 2005, he was appointed Senior Corporate Vice-President. In 2007, he was appointed Head of Global Banking and Markets of HSBC Continental Europe. In 2010, he was appointed Deputy CEO, in addition to his role as Head of Global Banking and Markets France. The same year, he was appointed Head of Global Banking, Continental Europe, HSBC Group. His direct responsibilities within Global Banking and Markets ended in 2019. Since January 2012, he has been CEO of HSBC Continental Europe.

2019	**Directorships in the HSBC Group:** Director and CEO: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: *Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education.* **Directorships outside of the HSBC Group:** Director: *Institut de la Gestion Déléguée*. Member of the Supervisory Board: *Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution* (permanent representative of HSBC Continental Europe). Chairman: *Académie France-Chine*. Director, Fondation de France (permanent representative of HSBC Continental Europe). Treasurer: *Association du Golf de Saint-Cloud.*
2018	**Directorships in the HSBC Group:** Director and CEO: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: *Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education.* **Directorships outside of the HSBC Group:** Director: *Institut de la Gestion Déléguée*. Member of the Supervisory Board: *Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution* (permanent representative of HSBC Continental Europe). Chairman: *Académie France-Chine. Director, Fondation de France* (permanent representative of HSBC Continental Europe). Treasurer: *Association du Golf de Saint-Cloud.*
2017	**Directorships in the HSBC Group:** Director and CEO: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: *Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education.* **Directorships outside of the HSBC Group:** Director: *Institut de la Gestion Déléguée*. Member of the Supervisory Board: *Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution* (permanent representative of HSBC Continental Europe). Chairman: *Académie France-Chine.Director, Fondation de France* (permanent representative of HSBC Continental Europe).

4 *Listed company.*

2016	**Directorships in the HSBC Group:** Director and CEO: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: *Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education.* **Directorships outside of the HSBC Group:** Director: *Institut de la Gestion Déléguée*. Member of the Supervisory Board: *Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution* (permanent representative of HSBC Continental Europe). Chairman: *Académie France-Chine.*

Paule Cellard

Independent Director

Member of the Risk Committee

First elected: 2017. Last re-elected: 2019. Term ends: 2022

Other directorships: Director, CA Indosuez Wealth Management (Europe). Member of the Supervisory Board, Damartex[5]. Member of the Supervisory Board, Somfy[5].

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: four directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1955. Graduated from the *Ecole Supérieure de Commerce de Paris ('ESCP' Europe)*. Degree in International Law from the University Paris II-Assas and Corporate Director Certificate from the French Institute of Directors, issued by the *Institut d'Etudes Politiques de Paris*. After having held various operational responsibilities within Investment Banking and Markets activities at *Banque Indosuez*, The Chase Manhattan Bank and then at *Crédit Agricole* group, she was Head of the central team of Calyon's *Inspection Générale* between 2000 and 2005, Chief Executive Officer of *Gestion Privée Indosuez* between 2006 and 2009, and subsequently Global Head of Compliance for Crédit Agricole Corporate & Investment Bank until 2013, when she retired. Since 2013, she has been holding several directorships in boards and board committees.

2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Klefi Conseil. Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.
2016	–

Christine D'Amore

Director elected by employees

First elected: 2019. Term ends: 2022

Principal position: Deputy GRM, South West Corporate Banking Centre, Commercial Banking, HSBC Continental Europe.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1971. Graduated with a Professional Certificate in 'Banking'. Master's degree in applied foreign languages English/Spanish, business and commerce. Since she joined HSBC in 2003, she held positions as Branch Supervisor, Sales Assistant and Relationship Manager within the Retail Banking and Commercial Banking networks.

2019	**Directorship in the HSBC Group:** Director elected by employees: HSBC Continental Europe.
2018	–
2017	–
2016	–

Lindsay Gordon

Independent Director

Chairman of the Risk Committee and Member of the Audit Committee

First elected: 2013. Last re-elected: 2019. Term ends: 2022

Other directorship in the HSBC Group: Director, HSBC Bank Bermuda Limited.

Other directorships outside of the HSBC Group: Governor and Co-Founder, C.H.I.L.D. Foundation. Director, Export Development Canada. Directorship expired in 2020: Chancellor, University of British Columbia.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1952. British and Canadian nationality. Graduate of an M.B.A. in Finance and International Business at the Sauder School of Business of the University of British Colombia and BA in Economics from the University of British Colombia. He joined HSBC Bank Canada in 1987 and has served in various roles in Toronto and Vancouver including Senior Executive Vice-President, Chief Credit Officer, Senior Vice-President and Head of Special Credit, and Vice-President at Commercial Banking in Toronto. He was appointed Chief Operating Officer in 1999 then President and Chief Executive Officer from 2003 to 2013, date of his retirement.

2019	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Export Development Canada.

[5] *Listed company*

2018	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.
2017	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.

Philippe Houzé

Independent Director

Chairman of the Nomination Committee and of the Remuneration Committee

First elected: 1999. Last re-elected: 2019. Term ends: 2022

Principal position: Chairman of the Management Board, Galeries Lafayette Group.

Other directorships: Deputy Chairman, Chief Executive Officer and member of the Supervisory Board, Motier. Chairman of the Supervisory Board, *La Redoute*. Lead Director then Deputy Chairman (since April 2020), Carrefour[6]. Director, Lafayette Anticipation – *Fondation d'entreprise Galeries Lafayette* (Founders College). Member of the Board, INSEAD. Member of the Steering Committee, *Union du Grand Commerce de Centre-Ville ('UCV'). Elected Member, Chambre de Commerce et d'Industrie de la région Paris Ile-de-France*. Member of the Great Council, *Cercle de l'Union Interalliée*. Chairman of the France Council, INSEAD. Chairman of the Board of the consular higher education institution, ESCP. Deputy Chairman, Association Alliance 46.2 *Entreprendre en France pour le Tourisme*. Directorships expired in 2020: Member of the Supervisory Committee, BHV Exploitation. Chairman, *Motier Domaines.*

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1947. Graduate of a Bachelor degree in Political Science and of an M.B.A. from the Institut Européen d'Administration des Affaires ('INSEAD'). Director of *Galeries Lafayette* since 1974 and Chairman of the Management Board since 2003.

2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Guérin Joaillerie. Lead Director: Carrefour. Director: *Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette* (Founders College), INSEAD, *Institut Français de la Mode*. Chairman of the Supervisory Board: La Redoute. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville ('UCV').* Elected member: *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France*. Member of the Supervisory Committee: BHV Exploitation. Chairman of the France Council: INSEAD. Chairman of the Board of the consular higher education institution, ESCP. Deputy Chairman: Association Alliance 46.2 *Entreprendre en France pour le Tourisme*. Member of the Great Council: Cercle de l'Union Interalliée.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Guérin Joaillerie. Lead Director: Carrefour. Director: *Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette* (Founders College), INSEAD, *Institut Français de la Mode*. Chairman of the Supervisory Board: La Redoute. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville ('UCV')*. Elected member: *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France*. Member of the Supervisory Committee: BHV Exploitation. Chairman of the France Council: INSEAD. Deputy Chairman: Association Alliance 46.2 *Entreprendre en France pour le Tourisme*. Chairman of the Board of the consular higher education institution, ESCP. Member of the Great Council, *Cercle de l'Union Interalliée.*
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Guérin Joaillerie. Lead Director: Carrefour. Director: *Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette* (Founders College), INSEAD, Expofrance 2025, EESC ESCP, *Institut Français de la Mode*. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville ('UCV')*. Elected member: *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France.* Member of the Supervisory Committee: BHV Exploitation. Deputy Chairman: Association Alliance 46.2 *Entreprendre en France pour le Tourisme*. Chairman of the France Council: INSEAD. Chairman of the France Board of Governors, ESCP Europe. Chairman of the Governing Board: Novancia Business School. Member of the Great Council, *Cercle de l'Union Interalliée.*

[6] *Listed company*

2016	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Guérin Joaillerie. Lead Director: Carrefour. Director: *Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette* (Founders College), INSEAD, Expofrance 2025, EESC ESCP. Member of the Steering Committee: *Union du Grand Commerce de Centre-Ville ('UCV')*. Elected member: *Chambre de Commerce et d'Industrie de la région Paris Ile-de-France*. Member of the Supervisory Committee: BHV Exploitation. President of the Council: France INSEAD. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 *Entreprendre en France pour le Tourisme.*

Laurent Lagueny

Director elected by employees

Member of the Remuneration Committee

First elected: 2019. Term ends: 2022

Principal position: Head of Trade Finance Processing, Commercial Banking, HSBC Continental Europe.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1966. Graduated from the Institut d'Etudes Politiques de Paris. He joined HSBC Continental Europe in 1998 and held branch and business centre management positions within the Retail Banking and Commercial Banking networks then facilitator positions in the Training Department. After having exercised the functions of Head of Business Development from 2009 to 2013 within the Trade and Supply Chain department, he has been appointed Processing Trade Finance Director in 2018.

2019	**Directorship in the HSBC Group:** Director elected by employees: HSBC Continental Europe.
2018	–
2017	–
2016	–

Thierry Moulonguet

Independent Director

Chairman of the Audit Committee and member of the Risk Committee

First elected: 2009. Last re-elected: 2019. Term ends: 2022

Other directorships: Managing Director, Revue Des Deux Mondes[7]. Chairman of the Supervisory Board, Webedia[7]. Director, Fimalac[7],[8]. Director, Groupe Lucien Barrière[7].

Director, Valeo[8]. Director. Directorship expired in 2020: Fimalac Entertainment[7].

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and two directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1951. Graduated from the Institut d'Etudes Politiques de Paris and Ecole Nationale d'Administration. Degree in Economic Science. After having held several positions in the French public service, he joined the Finance Department of Renault in 1991. From 1999 to 2003, Senior Vice-President, Chief Financial Officer, Member of the Executive Committee and of the Board of Directors of Nissan. Until 2010, Executive Vice-President and Chief Financial Officer of the Renault Group, and then, until 2011, Director and Special Adviser to the President of the Renault-Nissan Alliance.

2019	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer then Managing Director: *Revue Des Deux Mondes*. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo, Fimalac Entertainment.
2018	**Directorships in the HSBC Group**: Independent Director: HSBC Continental Europe, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer then Managing Director: *Revue Des Deux Mondes*. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo, Fimalac Entertainment.
2017	**Directorships in the HSBC Group**: Independent Director: HSBC Continental Europe, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo, Trois-S Entertainment.
2016	**Directorships in the HSBC Group**: Independent Director: HSBC Continental Europe, HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Groupe Lucien Barrière, Prodways Group, Valeo, Trois-S Entertainment.

Stephen O'Connor

Independent Director

First elected: 2021. Term ends: 2022

Principal position: Chairman, HSBC Bank plc.

Other directorships: Chairman and Founder, Quantile Technologies Limited. Director, The London Stock Exchange Group plc. Director, London Stock Exchange plc. Director, FICC Markets Standards Board.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: three directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1961. British nationality. BSc in Mechanical Engineering from Imperial College and Chartered Accountant. After starting his career with PwC, he held various positions in Markets activities, in particular derivatives, at Morgan Stanley from 1988 to 2013. He was the non-executive Chairman of OTC Deriv LTD from 2001 to 2011 and of International Swaps and Derivatives Association (ISDA) from 2009 to 2014. Since 2013, he has been a member of the Board of the London Stock Exchange Group where he is also Chair of the Board Risk Committee and a Member of the Audit and Nominations Committees. He founded Quantile Technologies Ltd in 2015, where he is the Chair. Since 2018, he has been Chairman of the Board and of Chairman of the Nominations, Remuneration and Governance Committee of HSBC Bank plc.

7 *Company owned by the Fimalac group.*
8 *Listed company.*

2019	–
2018	–
2017	–
2016	–

Dominique Perrier

Independent Director

Member of the Audit Committee

First elected: 2018. Last re-elected: 2019. Term ends: 2022

Other directorships: Director, NaturaBuy. Chairman, Moncey Arbitrage et Conseil.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and two directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1954. Graduated from the French Business School ESSEC and Certified Public Accountant. Mediator certified by Ecole Professionnelle de la Médiation et de la Négociation. After practising as external auditor at Peat Marwick and then, from 1988, as an audit and consulting partner at PricewaterhouseCoopers Audit ('PwC'), she took over the development of PwC Dispute Analysis and Investigation department from 2001 to 2016. From 2004 to 2008, she also managed the PwC Restructuring activities. Retired since 2017, she intervenes, on the one hand, as an independent director and, on the other hand, as arbitrator, independent expert and mediator.

2019	Directorships in the HSBC Group: Independent Director: HSBC Continental Europe. Directorships outside of the HSBC Group: Chairman: Moncey Arbitrage et Conseil. Director: NaturaBuy.
2018	Directorships in the HSBC Group: Independent Director: HSBC Continental Europe. Directorships outside of the HSBC Group: Chairman: Moncey Arbitrage et Conseil. Director: NaturaBuy.
2017	–
2016	–

Arnaud Poupart-Lafarge

Independent Director

Member of the Nomination Committee and of the Remuneration Committee

First elected: 2016. Last re-elected: 2019. Term ends: 2022

Principal position: Chief Executive Officer, Galliance (since October 2020).

Other directorship: Chairman, Racilia.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1965. Engineer graduate from Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées. Master of Science in Engineering Management from the University of Stanford. Within the ArcelorMittal group, he managed various operations in Europe, Africa and CIS; he was a member of ArcelorMittal Management Council until 2013. Chief Executive Officer of Nexans from 2014 to 2018, after joining the company in 2013 as Chief Operating Officer. He is Chairman of Racilia since July 2019 and was appointed Chief Executive Officer of Galliance in October 2020.

2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorship outside of the HSBC Group:** Chairman: Racilia.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorship outside of the HSBC Group:** Chief Executive Officer: Nexans.
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorship outside of the HSBC Group:** Chief Executive Officer: Nexans.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorship outside of the HSBC Group:** Chief Executive Officer: Nexans.

Lucile Ribot

Independent Director

Member of the Audit Committee

First elected: 2016. Last re-elected: 2020. Term ends: 2023

Other directorships: Director, Imerys[9]. Director, Kaufman & Broad SA[9]. Member of the Supervisory Board: Acropole Holding SAS (since May 2020). Member of the Supervisory Board: Siaci Saint Honoré (since June 2020).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: four directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1966. Graduated from the *Ecole des Hautes Etudes Commerciales de Paris ('HEC')*. Senior Audit Manager at Arthur Andersen (audit and consulting) from 1989 to 1994. She joined the Fives Group in 1995 as a Group Financial Controller. From 1996 to 1997, Chief Financial and Administrative Officer of the subsidiary Five Solios. From 1998 to July 2017, Chief Financial Officer of Fives and Member of the Management Board from 2002 to January 2017.

2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: SoLocal Group, Imerys, Kaufman & Broad SA.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: SoLocal Group, Imerys, Kaufman & Broad SA.
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Management Board: Fives. Member of the Management Board and Chief Executive Officer: Novafives. Director: Fives DMS, Fives Pillard, FL Metal, Fives Landis Limited, Fives UK Holding Limited.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Management Board: Fives. Member of the Management Board and Chief Executive Officer: Novafives. Director: Fives DMS, Fives Pillard, FL Metal, Fives Landis Limited, Fives UK Holding Limited.

[9] *Listed Company*

Carola von Schmettow

Director

First elected: 2015. Last re-elected: 2018. Term ends: 2021[10]

Principal position: Chairman of the Management Board,

HSBC Trinkaus & Burkhardt AG[11].

Other directorships outside of the HSBC Group: Chairman of the Exchange Council, EUREX. Member of the Exchange Council, Frankfurt Stock Exchange. Member of the Presidency, Association of German Banks (since April 2020). Directorship expired in 2020: Member of the Supervisory Board, ThyssenKrupp AG[11].

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive.

Skills and Experience: Born in 1964. German nationality. Master in Mathematics from the University Heinrich-Heine of Düsseldorf and Master in Music from the University Robert Schumann of Düsseldorf. Joined HSBC Trinkaus & Burkhardt AG in 1992 as Associate Trading. From 1995 to 1997, Head of Treasury then Head of Global Markets Coordination until 1999. From 1999 to 2003, Chief Executive Officer of HSBC Trinkaus Capital Management GmbH (today, HSBC Global Asset Management Deutschland GmbH). She was also Member of the Executive Committee of HSBC Trinkaus & Burkhardt AG from 2001 to 2004, firstly as Responsible for Private Banking and Asset Management then as Responsible for Institutional Clients and Asset Management. From 2004 to 2006, Managing Partner with unlimited liability of HSBC Trinkaus & Burkhardt KGaA, company for which she was Responsible for Institutional Clients and Asset Management. Since 2006, a member of the Management Board of HSBC Trinkaus & Burkhardt AG and Responsible for Global Markets, Global Research and support functions. In 2015, she was appointed Chairman of the Management Board of HSBC Trinkaus & Burkhardt AG.

2019	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG, BVV.
2018	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG, BVV.
2017	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG, BVV.
2016	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Member of the Advisory Board: L-Bank. Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG, BVV.

Brigitte Taittinger

Independent Director

First elected: 2008. Last re-elected: 2019. Term ends: 2022

Other directorships: Member of the Board of Directors, Centre Georges Pompidou. Director, Fnac Darty[11]. Director, Suez[11].

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: three directorships as member of a Board of Directors or a Supervisory Board.

Skills and Experience: Born in 1959. Graduated from the Institut d'Etudes Politiques de Paris and degree in History. Advertising Manager for Publicis from 1984 to 1988. Marketing Department of *Groupe du Louvre* from 1988 to 1991. Chairman and CEO of Annick Goutal from 1991 to 2012. From 2013 to 2017, Director of Strategy and Development at Sciences Po, Paris.

2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Fnac Darty, Suez.
2018	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Fnac Darty, Suez.
2017	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Fnac Darty.
2016	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.

Lucie Thalamas Dit Barathe

Director elected by employees

First elected: 2019. Term ends: 2022

Principal position: Sales Assistant, North Business Banking Centre, Commercial Banking, HSBC Continental Europe.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1966. Graduated of a BTS in Executive Secretary. Since she joined HSBC in 1987, she held positions as Branch Supervisor and Sales Assistant as well as Back-Office Manager in the Commitments department within the Retail Banking and Commercial Banking networks.

2019	**Directorship in the HSBC Group:** Director elected by employees: HSBC Continental Europe.
2018	–
2017	–
2016	–

Board diversity

The diversity policy of the management body, updated by the Board at its meeting on 6 February 2020, aims to include a balance and a complementarity of age, gender, geographic provenance, professional and educational, independence, seniority in the mandate and representation of employees.

[10] *Director standing for re-election at the Annual General Meeting to be held on 11 March 2021*
[11] *Listed Company*

The profiles of the Directors are diverse and complementary and cover the spectrum of business lines and risks associated with the activities of HSBC Continental Europe. According to the Articles of Association, the Board of Directors has four members elected by the employees.

The Board includes four different nationalities and nearly two-thirds of Directors have international experience. On 31 December 2020, the average age of the Directors in office is 60.6 and their average seniority in the function is nearly seven years.

Excluding Directors elected by employees, the Board comprises five women and seven men, i.e. 42 per cent of women and 58 per cent of men.

Independent Directors

With respect to the criteria on independence defined in the guidelines on the assessment of the suitability of members of the management body issued by the European Banking Authority ('EBA') and the European Securities and Markets Authority ('ESMA') and by the HSBC Group, the Board of Directors determines, on appointment and annually thereafter, whether each non-executive Director may be considered as independent. To do this, it examines whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement.

The Board should record its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination.

Based on the Nomination Committee's report, the Board of Directors reviewed the situation of each of its members as at 31 December 2020 in the light of these criteria. It considered that eight Directors can be deemed independent. Nonetheless, two Directors have served on the Board for more than 12 years. Nevertheless, the Board of Directors found that this criterion alone did not call into question their independence *vis-à-vis* the company.

53.3 per cent of the Directors are independent; a higher proportion than a third (excluding the Chairman of the Board), as recommended by the Code.

Board evaluation

Pursuant to the Code's recommendations, a Board assessment was conducted internally in July 2020, under the responsibility of the Nomination Committee and on the basis of a questionnaire covering the following themes and covering the Board and the Board Committees: Strategy; risk and financial performance; composition and structure; Executive oversight, talent and succession; corporate culture and conduct; meeting process and role of the Chair; role of the Company Secretary; self-assessment, training and succession of Directors; behaviours; culture and efficiency. Results of this evaluation and the update on main actions implemented further to the evaluation conducted the year before were discussed by the Nomination Committee and then by the Board of Directors at its meeting of 24 July 2020.

The overall opinion regarding the Board and its Committees as well as their operations remains broadly positive. Proposals were discussed by the Nomination Committee and the Board, which decided to implement certain changes, including the lengthening of the quarterly Board meetings.

Directors' training and information

As required by the Board's internal rules, Directors receive the information they need to fulfil their duties and may ask to receive any documents they deem useful. In particular, the Board and the Board Committees may ask for a presentation on a particular subject or issue at a future meeting.

Upon recommendation of the Nomination Committee, the Board updated the policy on training of the management body's members.

According to this policy, new Directors, when taking up duty, receive an information pack on HSBC Continental Europe, including, among others, legal information about the company and the role of directors, as well as the latest Registration Document and minutes of Board meetings for the past 12 months. In addition, the Company Secretary organises, to the new Director's intent and depending on his/her needs and priorities, a programme of training sessions with HSBC Continental Europe's main executives in the business lines and functions. It is also offered to Directors in office to attend these sessions.

In 2020, training sessions on the role and functioning of the Regulatory Affairs Department and Internal Audit were facilitated by their respective Heads. In addition, Directors were invited to attend to webinars organised by HSBC for the European week of sustainability and for the cyber awareness month. Furthermore, Directors took training in the form of e-learning on risk management at HSBC, heath, safety and wellbeing, data privacy and cybersecurity, financial crime risk, conduct and harassment at work.

Meetings of the Board of Directors and of the Board's Committees are also used as an opportunity to provide Directors with information that is essential for them to carry out their duties, and to update their knowledge.

Furthermore, a forum was organised for Audit and Risk Committees Chairs of the principal European entities of the HSBC Group.

Directors' remuneration

The maximum total remuneration payable each year to Directors was fixed at EUR 700,000, as decided by the Annual General Meeting of 15 May 2017.

This remuneration is allocated according to the following rules, decided by the Board of Directors at its meeting on 6 February 2016 then modified on 8 February 2019:

- each Director is allocated an annual flat fee of EUR 35,000, paid at the conclusion of the Annual General Meeting;
- the additional annual flat fee paid to Board Committees members amounts to:
  - EUR 25,000 for the Chairmen of the Audit Committee and of the Risk Committee;
  - EUR 15,000 for the members of the Audit Committee and of the Risk Committee;
  - EUR 7,000 for the Chairmen of the Nomination Committee and of the Remuneration Committee;
  - EUR 6,000 for the members of the Nomination Committee and of the Remuneration Committee.

Furthermore, within the HSBC Group, it is customary for Directors performing other executive duties in the Group and Executive Directors to renounce their remuneration in respect of their directorships held in HSBC Group companies. This recommendation has been implemented by the Directors and Executive Directors of HSBC Continental Europe and its subsidiaries.

In 2020, in respect of 2019, Jean Beunardeau, James Emmett, Laurence Rogier, Carola von Schmettow and Andrew Wild renounced the payment of their remuneration in respect of their directorship in HSBC Continental Europe. It has to be noted that, according to this rule, Samir Assaf, Chairman of the Board of HSBC Continental Europe, does not receive any remuneration from HSBC Continental Europe for his office.

Moreover, in order to comply with the rules applied by the HSBC Group, the Directors' attendance record is not taken into account in calculating Directors' remuneration.

The total Directors' remuneration net of social contributions, income tax prepayment and withholding tax to be paid in 2021 in respect of 2020 amounts to EUR 0.44 million, to be compared to EUR 0.47 million paid in 2020 in respect of 2019.

Remunerations paid to Non-Executive Directors by HSBC Continental Europe, the companies it controls and the companies which control it (the HSBC Group)

	Remuneration in respect of the directorship paid in 2019 in respect of 2018	**Remuneration in respect of the directorship paid in 2020 in respect of 2019**	Other compensation paid in 2019[1]	**Other compensation paid in 2020[1]**
Directors performing their principal position in another entity of the HSBC Group				
James Emmett[2,3,4]	–	**–**	GBP 1,839,695	**GBP 276,890**
Nuno Matos[3,5]	–	**–**	–	**GBP 1,236,953**
Carola von Schmettow[6]	–	**–**	–	**–**
Directors elected by the employees				
Ibtissam Bara[7, 8]	EUR 28,980	**EUR 21,735**	–	**–**
Ludovic Bénard[7,8]	EUR 33,948	**EUR 25,461**	–	**–**
Xavier Bertrand[7,8]	EUR 28,980	**EUR 21,735**	–	**–**
Christine D'Amore[8, 9]	–	**EUR 7,245**	–	**–**
Laurent Lagueny[8, 9]	–	**EUR 7,245**	–	**–**
Philippe Purdy[8,10]	EUR 28,980	**EUR 28,980**	–	**–**
Lucie Thalamas Dit Barathe[8, 9]	–	**EUR 7,245**	–	**–**
Directors not performing executive duties within the HSBC Group[11]				
Paule Cellard	EUR 45,500	**EUR 41,125**	–	**–**
Lindsay Gordon	EUR 63,200	**EUR 65,400**	–	**–**
Philippe Houzé	EUR 34,300	**EUR 34,300**	–	**–**
Anne Méaux[12]	EUR 24,500	**EUR 2,042**	–	**–**
Thierry Moulonguet	EUR 50,750	**EUR 52,500**	–	**–**
Dominique Perrier[13]	EUR 20,417	**EUR 28,875**	–	**–**
Arnaud Poupart-Lafarge	EUR 24,500	**EUR 28,875**	–	**–**
Lucile Ribot	EUR 45,500	**EUR 41,125**	–	**–**
Brigitte Taittinger	EUR 24,500	**EUR 24,500**	–	**–**
Jacques Veyrat[14]	EUR 32,900	**EUR 32,900**	–	**–**

1 Fixed and other fixed remuneration, variable remuneration and benefits in kind.
2 Co-optation on 26 October 2018.
3 Compensation shown are paid by other HSBC Group companies in respect of his/her executive functions within the Group.
4 Resignation from his directorship on 16 March 2020.
5 Co-optation on 30 April 2020.
6 Does not receive remuneration from controlled companies by HSBC Continental Europe nor from companies which control HSBC Continental Europe.
7 End of Directorship on 26 September 2019.
8 Renounced remuneration to the benefit of a trade union organisation, net of social contributions.
9 Election by employees on 26 September 2019.
10 Died on 9 September 2020.
11 Amounts paid net of social contributions, income tax prepayment, and, where applicable, withholding tax.
12 Resignation from her directorship on 23 January 2019.
13 Co-optation on 20 February 2018.
14 Resignation from his directorship on 6 February 2020.

Duties and procedures of the Board of Directors

The Board internal rules govern Board's functioning and include the main duties under Board's responsibility. The Board's functioning takes into account HSBC Continental Europe's position, 99.9 per cent held by the HSBC Group:

- it constructively challenges the strategy and determines strategic orientations, on the basis of the strategy formulated by General Management and oversees and monitors their implementation. It approves strategic investments/divestments and all transactions liable to impact earnings significantly;
- it oversees and monitors management decision-making and actions and provides effective oversight of the effective managers and constructively challenges and critically reviews proposals and information provided by the effective managers, as well as their decisions;
- it oversees and monitors that HSBC Continental Europe's strategic objectives, organisational structure and risk strategy, including its risk appetite and risk management framework, as well as other policies (e.g. remuneration policy) and the disclosure framework are implemented consistently.
- it monitors and supervises major risks and reviews regular risk management reports, setting out the risks involved in the HSBC Continental Europe's business and results;
- it monitors that the risk culture is implemented consistently;
- it sets HSBC Continental Europe's values and principles and oversees the implementation and maintenance of a code of conduct or similar and effective policies to identify, manage and mitigate actual and potential conflicts of interest;
- it oversees the integrity of financial information and reporting, and the internal control framework, including an effective and sound risk management framework;
- it ensures that the heads of internal control functions, namely the Chief Risk Officer, the Head of Regulatory Compliance, the Head of Financial Crime Compliance and the Head of Internal Audit, are able to act independently and, regardless the responsibility to report to other internal bodies, business lines or units, can raise concerns and warn the Board where necessary when adverse risk developments affect or may affect the institution;
- it deliberates on all questions pertaining to its legal and regulatory obligations and those stemming from its articles of association;
- it cares about HSBC Group's reputation in France.

In the week prior to the meeting, the Directors receive the meeting file, including the agenda, the draft minutes of the previous Board meeting and supporting papers to the agenda items to be discussed at the meeting. In the case of highly confidential matters, which cannot be disclosed in advance, the information is provided during the meeting itself. Furthermore, Directors are regularly advised of significant events affecting the company and receive the relevant documents.

Board of Directors' work

The Board of Directors met ten times during 2020. The average attendance rate was 88 per cent, compared to 80 per cent in 2019:

- 6 February 2020 (attendance rate: 94 per cent);
- 18 February 2020 (attendance rate: 76 per cent);
- 30 March 2020 (attendance rate: 88 per cent);
- 30 April 2020 (attendance rate: 100 per cent);
- 29 May 2020 (attendance rate: 100 per cent);
- 6 July 2020 (attendance rate: 76 per cent);
- 24 July 2020 (attendance rate: 94 per cent);
- 31 July 2020 (attendance rate: 71 per cent);
- 23 October 2020 (attendance rate: 100 per cent);
- 4 December 2020 (attendance rate: 81 per cent).

Impacts of the Covid-19 pandemic on the Board's work

In 2020, the Board stepped up its work and concentrated on the close monitoring of the evolution of the impacts and risks associated to the Covid-19 pandemic in particular in terms of operational resilience, capital and liquidity, credit, market, fraud and people risks. In total, it met ten times during the year, by teleconference from March 2020, which did not have a negative impact on its ability to carry out its work and to discharge its usual responsibilities. Between these Board meetings, the Chief Executive Officer very regularly kept the Directors informed of developments in the situation.

Businesses and strategy

At each meeting, the Board was informed of developments in business activity, the group's position, the important stakes for each of its businesses, and transformation projects.

In the meeting held on 6 July 2020, the Board of Directors approved the company's strategic directions. It took note of the opinions issued by the Social and Economic Council on the company's economic and financial situation and on strategic directions respectively at its meeting on 24 July and 23 October 2020.

As part of the implementation of the strategy, the Board reviewed and approved the repositioning projects of Global Banking and Markets and Commercial Banking and of certain central functions and the associated departure plans respectively at its meetings on 6 July and 4 December 2020. The transformation project for the HSBC Continental Europe branches was presented to the Board at its meeting on 23 October 2020.

The Board was kept regularly informed of the progress of the strategic review of the retail banking activities.

After having approved the principle respectively at its meetings on 16 October 2019 and 29 May 2020, the Board, at its meeting on 23 October 2020, formally approved the change of the head office and of the corporate name of the company from 1 December 2020. The change of corporate name was also approved by the shareholders' general meeting held on 12 November 2020.

In 2020, The Board of Directors also continued its work on the impacts ot the United Kingdom's exit from the European Union, which focused in particular on the booking models and the update of the outsourcing policy.

The Board regularly benefited from the comments and insight of the Chairman of the Board, who is also Chairman of Corporate and Investment Banking of the HSBC Group, and Nuno Matos, who is also Chief Executive Officer of the Europe region for the HSBC Group, on the HSBC Group's development, results, strategy, latest news, as well as trends in the world economic and regulatory environment. The Independent Directors, for their part, shared with the Board their view of the economic situation and economic conditions in their business sector.

Finance

In 2020, the Board of Directors reviewed the quarterly, half-yearly and annual financial statements and signed off the half-yearly and annual financial statements. At each of its meetings, the Board reviewed HSBC Continental Europe's revenue, costs, results and balance sheet. For each period reviewed, the Board heard the conclusions of the Statutory Auditors, who were invited to attend all Board meetings.

At its meeting on 6 February 2020, the Board reviewed and approved the budget, the capital and liquidity plans and the risk appetite for 2020. At its meeting on 23 October 2020, it reviewed an initial version of the risk appetite for 2021.

The Board of Directors was informed of developments in regulatory capital and regulatory ratios, in particular capital, liquidity, solvency and leverage ratios. At each of its regular meetings, the Board received information on the funding plan, funding position and trends in medium- and long-term debt.

The Board also reviewed and approved the dividend policy and the Internal Capital Adequacy Assessment Process ('ICAAP') and the Internal Liquidity Adequacy Assessment Process ('ILAAP') reports (meeting on 30 April 2020) as well as the emergency liquidity plan (meeting on 23 October 2020).

Risk management

At each meeting, the Board reviewed the Group's risk position, and in particular financial risks such as stress test, credit, market, model, capital, liquidity and interest rate risk, as well as non-financial risk, including resilience, security and fraud, information systems, litigation, fiscal and people risks. In addition, it reviewed the updates to the risk management framework and decided to adjust certain risk appetite thresholds during the year. The Directors have also access to the Risk Committee's supporting documentation.

Furthermore the Board was informed at each meeting of progress made in the Financial Crime Compliance area. At the meeting on 23 October 2020, the Head of Financial Crime Compliance presented his annual report to the Board.

As regards Regulatory Compliance, the Head of Regulatory Compliance presented his annual report to the Board at the meeting held on 30 April 2020. Following the combination of the Financial Crime Compliance and Regulatory Compliance Departments, the Board approved the appointment of a new Head of Compliance (meeting on 23 October 2020). The Board also reviewed the Ombudsman's report on his activity in 2019 (meeting on 23 October 2020).

The Board reviewed and approved where necessary the annual reports on internal control and on the organisation of the financial crime internal control system (meeting on 30 April 2020), sent to the Autorité de contrôle prudentiel et de résolution.

The Chairman of the Audit Committee and the Chief Risk Officer regularly commented on the Internal Audit work, in particular audit reports adverse graded and changes in the number of open recommendations. The Head of Internal Audit presented his annual report to the Board at its meeting on 18 February 2020.

Regulatory environment and supervision

The Board was regularly informed of engagements with the various supervisors and of their duties and investigations, in particular the European Central Bank, the *Autorité de contrôle prudentiel et de résolution* and the *Autorité des marchés financiers*, as well as their findings, follow-up letters received and HSBC Continental Europe's responses.

On 6 February 2020, the Joint Supervisory Team of the European Central Bank and the *Autorité de contrôle prudentiel et de résolution* presented to the Board the results of its work carried out in 2019 and its priorities, its expectations and its supervisory programme for 2020 then attended the Board meeting as observers.

Governance

The work of the Board Committees was set out in regular, detailed reports from their respective Chairmen and was debated during Board meetings. In this regard, the Board was kept informed at each meeting about the main topics discussed and points of action identified by the Audit Committee and by the Risk Committee, particularly with regards to supervision, accounting projects and matters, risks, control and risk management system, internal audit, compliance and permanent control.

At each Board meeting, a report was given on the action points requested by the Board at previous meetings, with specific presentations where necessary.

In 2020, the Board updated the policies on corporate governance under its responsibility, including the Board internal rules, the internal governance policy, the policy on individual and collective assessment of the management body, the nomination procedure of the management body, and the diversity policy of the management body. Apart from these issues, the Board also discussed, on the basis of the works conducted by the Nomination and Remuneration Committees, various other issues which are its responsibility in accordance with the law and regulations in force, in particular as regards compensation, suitability assessment of the management body, composition of the Board, of the General Management and of the specialised Board committees, assessment of Board practices and procedures, conflict of interest prevention, and authorisation of non-audit services provided by the Statutory Auditors. In this respect, it approved the Board of Directors' reports to the General Meeting and on corporate governance for 2019 (meeting on 18 February 2020), the Board's interim report at 30 June 2020 (meeting on 31 July 2020) as well as releases in respect of annual and interim results during the same meetings. Likewise, the Board authorised a new related-party agreement (meetings on 23 October 2020) and reviewed related-party agreements entered into and authorised by the Board in prior years which remained valid in the current year in accordance with the provisions of article L. 225-40-1 of the French Commercial Code (meeting on 23 October 2020).

Board Committees

The Board is assisted by four specialised Committees: Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee, the duties are defined in the Board's internal rules.

Audit Committee

Composition of the Audit Committee

Chairman	
Thierry Moulonguet (independent)	Appointed in 2010 (Member from 2009 to 2010)
Members	
Lindsay Gordon (independent)	Appointed in 2013
Dominique Perrier (independent)	Appointed in 2019
Lucile Ribot (independent)	Appointed in 2017

The Audit Committee members are highly qualified in banking, financial, accounting and control areas, as they serve or have in the past served in the capacity of Chairman and Chief Executive Officer of a bank, Audit Committee member, including of banks, Chief Financial Officer, or Statutory Auditor.

Cross-membership of the Audit and Risk Committees Chairs allows to ensure an appropriate interaction between both committees.

Audit Committee's duties

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on matters relating to the budget, financial reporting, internal control of financial information, capital and liquidity ratios to support the Risk Committee, the dividend policy and capital allocation, management of the Finance function and Internal Audit.

The Committee in particular reviews:

- the integrity of the financial statements, Pillar 3 disclosures, formal announcements and disclosures relating to financial performance;
- the effectiveness of Internal Audit and the external audit process;
- the effectiveness of internal financial control systems.

The Committee meets the Statutory Auditors and the Head of Internal Audit in private at least once per year to ensure that there are no unresolved issues or concerns. In carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

To give itself sufficient time to review the accounts before they are reviewed by the Board, the Audit Committee meets a few days before the Board insofar as possible.

Lastly, at the request of the HSBC Bank plc's Audit Committee, the HSBC Continental Europe's Audit Committee Chairman provides a half-yearly certificate to the Audit Committee Chairman of HSBC Bank plc, HSBC Continental Europe's direct shareholder,

confirming, in particular, that the accounts were reviewed by the Committee and that the internal control system of financial reporting appears to be appropriate.

Audit Committee's work in 2020

The Audit Committee met four times in 2020, with an attendance rate of 100 per cent, as in 2019:

- 4 February 2020;
- 27 April 2020;
- 17 July 2020;
- 20 October 2020.

Each meeting was also attended by the Statutory Auditors, the Chief Financial Officer, the Chief Accounting Officer, the Head of Audit and the Chief Risk Officer. The Chief Executive Officer and one of the two Deputy Chief Executive Officers also attended Committee meetings to answer any questions. HSBC Continental Europe executives also attend Committee meetings covering any subjects falling under their responsibility. The Committee Chairman also met with the Statutory Auditors in private sessions during the year.

The first aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit Committee reviewed the parent-company and consolidated accounts. The Committee was informed by the Finance Department of the main accounting and tax points of attention and discussed the choices made by the company in drawing up its financial statements and verified the adequacy of provisions for identified risks. The Committee's work concentrated, in particular, on the impacts of the Covid-19 pandemic on the accounting valuation of assets.

The Committee examined the budget for 2020 financial year (meeting on 4 February 2020) and then the update of performance forecast at year-end. Once throughout the year, it paid careful attention to monitoring the cost base and on recharges processes in place in the HSBC Group.

At each meeting, the Committee was informed of the situation in terms of solvability and capital of HSBC Assurances Vie (France) and of the changes in the models used to compute the Present Value of In-Force ('PVIF') as well as their impact on the P&L.

The second area of the Committee's work concerned controls. To this end, the Statutory Auditors commented on their management letter and the aspects subject to particular attention at the time of preparing the 2019 financial statements. The Committee discussed the Statutory Auditors' audit programme and independence, approved the fees paid in 2019 by the HSBC Continental Europe group to the Statutory Auditors. The Committee reviewed and authorised as necessary the non-audit services rendered by the statutory auditors.

Statutory Auditors presented their diligences on the financial statements at 31 March 2020, 30 June 2020 and 30 September 2020 (meetings on 27 April, 17 July and 20 October 2020), as well as their annual audit plan (meeting on 17 July 2020).

The Committee was also informed of the results of controls conducted on financial statements, in particular regarding the deficiencies identified by these controls and progress in action plans. Within this framework, it reviewed the work carried out as part of the application of Sarbanes-Oxley and reviewed the points raised in the account controls certificates and by accounting assurance reviews, as well as implementation of the recommendations raised in the Statutory Auditors' management letters.

In terms of data management, the Committee was kept regularly informed of the progress of the development of the framework and action plans, in particular, in relation with BCBS 239 application and reviewed the proposals relating to the introduction of indicators in the risk appetite monitoring dashboard.

At its meeting on 20 October 2020, the Committee examined the list of the related-party agreements authorised previously by the Board and still in force and made recommendations to the Board regarding the list update.

At its meeting on 17 July 2020, the Committee was given a presentation on the framework in place regarding whistleblowing and its results.

The third aspect of the Committee work concerned the detailed review, at each meeting, of Internal Audit work. It reviewed the findings of the main audit duties, particularly those calling particular attention. The Committee remained extremely attentive to the proper implementation of the audit recommendations. It has also approved the update of the audit charter and the 2020 annual audit plan (meeting on 4 February 2020) and regularly discussed on Human Resources of Internal Audit.

The Committee carried out the annual review of its terms of reference (meeting on 4 February 2020).

The Chairman of the Audit Committee reported on the key points discussed during Audit Committee meetings at the Board meetings held on 6 February, 30 April, 24 July and 23 October 2020.

Risk Committee

Composition of the Risk Committee

Chairman	
Lindsay Gordon (independent)	Appointed in 2015 (Member from 2013 to 2015)
Members	
Paule Cellard (independent)	Appointed in 2017
Thierry Moulonguet (independent)	Appointed in 2009 (Chairman from 2010 to 2015)
Arnaud Poupart-Lafarge (independent)	Appointed in 2019 – Resignation in October 2020

The Committee members are highly qualified in the banking, financial, risk and internal control areas, as they serve or have in the past served in the capacity of Chairman or Chief Executive Officer of a bank, with operational responsibilities within a Global Banking activities or as Head of internal audit and compliance of a bank, Risk Committee member, Chief Operating Officer or Chief Financial Officer.

Cross-membership of the Audit and Risk Committees Chairs allows to ensure an appropriate interaction between both committees.

Risk Committee's duties

The Risk Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on risk related matters and the enterprise risks impacting HSBC Continental Europe and its subsidiaries, including risk governance and internal control systems (other than internal controls over financial reporting).

The Committee collaborates with other Board committees whose activities may have an impact on the risk strategy (in particular, audit and remuneration committees) and regularly communicate with the HSBC Continental Europe's internal control functions, in particular the risk management function.

The Committee meets the Statutory Auditors and the Head of Internal Audit in private at least once per year to ensure that there are no unresolved issues or concerns. In carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

At the request of the HSBC Bank plc's Risk Committee, the HSBC Continental Europe's Risk Committee Chairman provides a half-yearly certificate to the Risk Committee Chairman of HSBC Bank plc, confirming, in particular, that the Committee examined the reports on risks and that no subject was brought to its attention other than those described in the supports.

Risk Committee's work in 2020

The Risk Committee met five times in 2020, with an attendance rate of 90 per cent, compared with 100 per cent in 2019:

- 4 February 2020;
- 15 April 2020;
- 28 April 2020;
- 16 July 2020;
- 21 October 2020.

Each meeting was also attended by the Statutory Auditors, the Chief Risk Officer, the Chief Financial Officer, the Chief Accounting Officer and the Head of Internal Audit. The Chief Executive Officer and one of the two Deputy Chief Executive Officers attended Committee meetings to answer any questions. HSBC Continental Europe executives also attend Committee meetings for subjects falling under their responsibility.

At the end of its quarterly meetings and with the attendance of the Audit Committee members, the Risk Committee held regularly in camera sessions without HSBC Continental Europe management attending or with the Chief Risk Officer only.

In 2020, the Committee concentrated its work on the impacts of the Covid-19 pandemic on HSBC Continental Europe risks, in particular in terms of credit, market, capital and liquidity, operational resilience and business continuity, and on results of the stress tests carried out using various economic recovery scenarios.

The Committee also paid particular attention to monitoring HSBC Continental Europe's transformation projects and the risks they entail.

Furthermore, the Committee maintained the deep dive sessions on a particular topic of its choice depending on the course of events or the matters of particular attention. Matters covered under this format in 2020 included Conduct, risks on banking book interest rates and the cryptocurrencies.

Despite the particular context of the 2020 year, the Committee continued its usual work. It thus approved HSBC Continental Europe's risk appetite in the 2020 financial year (meeting on 4 February 2020) and its subsequent updates, and then examined, at each of its meetings, the monitoring dashboard, in particular indicators which were not in line with the thresholds that had been set out. It also reviewed and approved the risk tolerance framework. At its meeting on 21 October 2020, it examined a first draft regarding risk appetite for the year 2021. In addition to a summary on risks given by the Chief Risk Officer it reviewed at each of its meetings HSBC Continental Europe's risk map, top and emerging risks facing it, as well as their assessment and the action plans which had been identified. The Committee was informed of the changes to the risk management framework.

The Risk Committee also continued to carry out the usual review of financial risks, the presentation of which highlighted the impacts related to Covid-19 pandemic, each of the individuals in charge of controlling such risks spoke, in particular concerning:

- Credit risks, with an individual review of major exposures, changes in outstanding credit and non-performing advances by businesses, changes in risk-weighted assets and the evolution of the cost of risk, and worrying exposures and sectors. The Committee was informed of the communications with the supervisory authorities on credit;
- Market risks, including their trends compared with limits, changes in exposure, the setting of limits, changes in market activities' risk-weighted assets and the results of internal stress tests;
- Risk models, in particular with the monitoring of progress made in the programme in this area and of reviews and on-site inspections on models performed by supervisory authorities as well as their impact on risk-weighted assets and the content and implementation of the recommendations issued by the various internal and external controlling bodies;
- Liquidity, capital and interest rate in the banking book risks. In particular, the Committee approved the Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') reports (meeting on 28 April 2020), after a session dedicated to the examination of these draft reports (meeting on 15 April 2020), as well as the capital and liquidity plans (meeting on 4 February 2020) and their execution afterwards;
- Stress testing, in particular the work carried out as part of the internal stress testing programme and HSBC Continental Europe's contribution to the HSBC Group stress tests performed by the Prudential Regulation Authority ('PRA'), as well as the results of these tests.

Likewise, at each meeting, the Risk Committee continued to carry out a review of non-financial risks, each of the individuals in charge of controlling such risks spoke, in particular concerning:

- Operational losses and progress and action plans relating to the non-financial risks management framework;
- Legal risks, included emerging risks, and legal disputes;
- Security and fraud risk, including information security and business continuity;
- Information systems, including the main incidents and risks and progress in the key projects.

In relation to permanent control, compliance and relations with regulators, the Committee was informed, at each of its meetings, of the progress made as regards internal control plans and the main areas of weakness identified, as well as the action plans drawn up to deal with them.

The Committee was informed of the work being carried out by Operational Risk department, notably progress in and the results of the control plans. In accordance with the French Government Order of 3 November 2014, the Committee was informed of the changes to the management framework for outsourced services, in particular those deemed essential, whether these services are sub-contracted within HSBC Group or to external suppliers as well as the results of controls carried out on outsourced essential services.

In the area of financial crime compliance, the Committee continued in 2020 to monitor carefully the developments in works, organisation, tools and implementation of recommendations made by the various control bodies concerning anti-money laundering, international sanctions and anti-bribery and corruption, as well as staffing changes, engagement with control and supervisory authorities and duties performed by these authorities on these matters.

In the area of regulatory compliance, the Committee took note of the quarterly reports, which set out the main new matters and updates on those already detailed in the course of previous meetings. It also examined the progress made in action plans implemented under the HSBC Group's Conduct programme as well as the Ombudsman's annual report (meeting on 21 October 2020).

The Committee approved the annual reports to the *Autorité de contrôle prudentiel et de résolution* on internal control and on the organisation of the financial crime compliance framework (meeting on 28 April 2020) and took note of other reports intended for the supervisory authorities.

The Committee was informed of communications with supervisory bodies and of the conclusions of various audits and reviews carried out by supervisory and control bodies, such as the *Autorité des Marchés Financiers*, the European Central Bank, the *Autorité de Contrôle Prudentiel et de Résolution*, the Prudential Regulation Authority, or the *Agence Française Anticorruption* and received reports and follow-up letters and replies to them in relation to these assignments, as well as action plans initiated to implement their recommendations.

The Committee was informed of the works performed by HSBC Continental Europe regarding recovery and resolution and carried out as part of the HSBC Group's obligations towards the Prudential Regulation Authority or of its own ones towards the Single Resolution Committee.

Again in 2020, the Committee remained attentive to developments in the regulatory and supervisory environment in which HSBC Continental Europe operates and to their impacts.

In relation to other governance matters, the Committee reviewed the remuneration policy and carried out the annual review of its terms of reference (meeting on 4 February 2020).

The Chairman of the Risk Committee reported on the key points discussed during Risk Committee meetings at the Board meetings held on 6 February, 30 April, 24 July and 23 October 2020.

Nomination Committee

Composition of the Nomination Committee

Chairman	
Philippe Houzé (independent)	Appointed in 2009 (Member from 1999 to 2009)
Members	
Samir Assaf	Appointed in 2012
Arnaud Poupart-Lafarge (independent)	Appointed in 2020

In accordance with the Governance Code for the companies of the HSBC Group, at least half of the Nomination Committee's membership are independent non-executive, non-employee Directors.

At its meeting on 6 February 2020 and upon recommendation from the Nomination Committee, the Board of Directors decided to appoint Arnaud Poupart-Lafarge as a member of the Nomination Committee, replacing Jacques Veyrat.

Nomination Committee's duties

The Nomination Committee reports to the Board and is responsible for leading the process for Board and Board Committees appointments and for identifying and nominating for the approval of the Board, candidates for appointment to the Board and its Committees.

In carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

Nomination Committee's work in 2020

The Nomination Committee met four times in 2020, with an attendance rate of 100 per cent as in 2019. Its main work concerned:

- the monitoring of the individual and collective suitability of the management body pursuant to the suitability assessment policy and assessments and reassessments required by the criteria defined in this policy;
- reflections, and recommendations to the Board, on the membership of the management body in its supervisory function – including that of the Board Committees – and management function, based on the suitability assessment and diversity policies, following, in particular the resignations of James Emmett, Laurence Rogier and Jacques Veyrat, and the death of Philippe Purdy, leading the Committee to propose to the Board the co-optation of a new Director: Nuno Matos;
- proposals to the Board on renewing Directors' term of office at the Annual General Meeting to be held in 2021 (meeting on 9 December 2020);
- the training plan of the management body for 2021 (meeting on 9 December 2020);
- the review of the results of the Board evaluation and proposal to the Board of actions to implement (meeting on 15 July 2020);
- the review and proposal to the Board to approve the updated register of potential situations of conflict of interest (meeting on 30 January 2020);
- the review of the first part of the new report on corporate governance (meeting on 30 January 2020);
- the review and proposals to the Board for updating the Board internal rules and the Board policies regarding assessment of the suitability of the management body's members and key function holders, and diversity of the management body.

The Chairman of the Nomination Committee reported to the Board on its work at the Board meetings on 6 February, 30 April and 24 July 2020. All of the Committee's work was submitted to the Board for approval.

Remuneration Committee

Composition of the Remuneration Committee

Chairman	
Philippe Houzé (independent)	Appointed in 2009 (Member from 1999 to 2009)
Members	
Samir Assaf	Appointed in 2012
Laurent Lagueny (elected by employees)	Appointed in 2020
Arnaud Poupart-Lafarge (independent)	Appointed in 2020

In accordance with the Governance Code for the companies of the HSBC Group, at least two members of the Remuneration Committee are independent non-executive Directors.

At its meeting on 6 February 2020 and upon recommendation from the Nomination Committee, the Board of Directors decided to appoint Laurent Lagueny and Arnaud Poupart-Lafarge as members of the Remuneration Committee, replacing Ludovic Bénard and Jacques Veyrat.

Remuneration Committee's duties

The Remuneration Committee has non-executive responsibility for matters related to remuneration. In exercising this responsibility, it is responsible for:

- supporting the Board in overseeing the implementation and operation of the HSBC Continental Europe's remuneration policy (the 'Policy') in compliance with HSBC's Group remuneration policy, as approved by the Group Remuneration Committee and the shareholders of the HSBC Holdings plc in general meetings;
- ensuring the Policy complies with all relevant local regulations;
- ensuring the Policy is appropriate to attract, retain and motivate directors and senior management of the quality required to run HSBC Continental Europe successfully.

The Committee collaborates with other Board committees whose activities may have an impact on the design and proper functioning of remuneration policies and practices (in particular, risk committee).

The Committee's recommendations on Executive Directors' remuneration are presented to the Board after prior approval by the Remuneration Committee of HSBC Holdings plc or are then submitted for approval. Moreover, in carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

Remuneration Committee's work in 2020

The Remuneration Committee met once in 2020 (meeting on 30 January 2020), with an attendance rate of 100 per cent as in 2019. Its main work concerned:

- the review HSBC's general remuneration policy in France, in respect of 2019 year, taking into account regulations concerning compensation, in particular risk control and the contribution of the Risk and Compliance functions to the process for determining variable compensations, the review of the list of employees, identified as not entirely complying with the risk and compliance rules and impacts on their remuneration, as well as the review of the rules and remuneration for employees defined as risk takers;
- the review of the 20 highest remunerations in respect of the 2019 year;
- compensation proposals for the Chief Risk Officer and the Head of Regulatory Compliance;
- proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the remuneration of Jean Beunardeau, Chris Davies and Andrew Wild in respect of 2019 and setting out the fixed and variable elements of their remuneration and the number of shares to be awarded to them (see section 'Executive Directors' compensation');
- the Executive pension plan;
- the review of the section of the corporate governance report on remuneration;
- the review of the part relating to the Remuneration Committee of the report on corporate governance.

The Chairman of the Remuneration Committee reported to the Board on its work at the Board meeting on 6 February 2020. All of the Committee's work was submitted to the Board for approval.

General Management

Since 2007, HSBC Continental Europe's Board of Directors has chosen to separate the functions of Chairman of the Board and Chief Executive Officer. This choice has been maintained since then and is furthermore in compliance with obligations for credit institutions.

Organisation of the General Management

General Management leads the Company and acts as its representative *vis-a-vis* third parties. General Management comprises the three Effective managers, i.e. the Chief Executive Officer, Jean Beunardeau, who is assisted by two Deputy Chief Executive Officers:

- Chris Davies, since 2019;
- Andrew Wild, since 2015.

Chief Executive Officer's powers

The CEO has the widest powers to act on the company's behalf in all circumstances within the limits of its corporate objects and subject to those powers expressly conferred by law on the collective body of shareholders and the Board of Directors. At present, there are no specific restrictions on the Chief Executive Officer's powers set by the Board or by the Articles of Association, but decisions involving the strategic orientation of company activities and investments/divestments are submitted to the Board of Directors for approval according to the Board Internal rules.

Furthermore, the Board of Directors has delegated powers to issue bonds to Jean Beunardeau (Chief Executive Officer), Chris Davies and Andrew Wild (Deputy Chief Executive Officers) and a certain number of Global Markets officers.

Even if the Chief Executive Officer has the widest powers to act on the company's behalf, he has delegated certain powers to employees under his immediate direct authority, who may in turn sub-delegate some of these powers.

These delegated powers must be exercised within the bounds of the person's responsibilities and in accordance with the HSBC

Group principles and practices. A person with delegated powers may not individually commit HSBC Continental Europe to sums above EUR 1,500,000.

There are specific delegated powers concerning credit and market risk, for which the CEO delegates his powers.

Presentation of the members of General Management

The biography of the Chief Executive Officer, Jean Beunardeau, is available on page 24.

Christopher Davies

Deputy Chief Executive Officer

Principal position: Deputy Chief Executive Officer, HSBC Continental Europe, in charge of the Network Countries perimeter for Continental Europe. Group General Manager, HSBC Group.

Other directorships in the HSBC Group: Director, HSBC Bank Bermuda Limited. Director, HSBC Bank (RR) (Limited Liability Company). Director, HSBC Europe B.V. Director, Midcorp Limited. Directorship expired in 2020: Director, HSBC Bank Malta p.l.c.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive.

Skills and experience: Born in 1962. British nationality. Master (MA) degree in French and German literature and languages from the University of Oxford and graduate of the Chartered Institute of Bankers. Since he joined HSBC in 1985, he has served in various senior roles across the main HSBC's major business lines, principally in the United Kingdom, the United States and China.

Thus, he was Head of Commercial banking North America from 2007 to 2011 then Deputy Chief Executive Officer of HSBC Bank (China) Company Limited from 2011 to 2013. from 2013 to 2020, he has been Chief Executive Officer International Europe of HSBC Bank plc. Group General Manager of the HSBC Group since 2017, he was appointed as Deputy Chief Executive Officer of HSBC Continental Europe in 2019, in charge of the Network Countries perimeter for Continental Europe.

2019	**Directorships in the HSBC Group:** Deputy CEO: HSBC Continental Europe. Director: HSBC Bank Bermuda Limited, HSBC Bank Malta p.l.c., HSBC Bank (RR) (Limited Liability Company), HSBC Europe B.V, Midcorp Limited. Member of the Supervisory Board: HSBC Bank Polska S.A.
2018	–
2017	–
2016	–

Andrew Wild

Deputy Chief Executive Officer

Principal position: Deputy Chief Executive Officer, Deputy to the CEO, HSBC Continental Europe. Head of Commercial Banking Europe, HSBC Bank plc.

Other directorships outside of the HSBC Group: Treasurer, Association Française des Banques. Chairman, Group of Banks under foreign control in France, Fédération Bancaire Française.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive.

Skills and experience: Born in 1970. British nationality. Graduate of the Business School of the University of Nottingham. He is also qualified as a chartered accountant. He joined the HSBC Group in 2005, after having been, in particular, Senior Manager Transaction Services at KPMG then, Corporate Finance Director at KPMG Corporate Finance. In 2008, he was appointed Deputy Head of Commercial Banking of HSBC in France. In 2011, he was appointed Global Head of Corporate, Business Banking and Products of Commercial Banking, HSBC Group, then he became, in 2013, Global Head of Mid-Market and Business Banking of Commercial Banking, HSBC Group.

He has been Deputy Chief Executive Officer, Deputy to the CEO of HSBC Continental Europe since 2015 and was Head of Commercial Banking in France from 2015 to 2018. In 2017, he was appointed Head of Commercial Banking, Europe.

2019	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2018	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2017	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2016	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.

Executive Committee

The General Management is assisted by an Executive Committee whose membership was as follows as at 1 February 2021:

Jean Beunardeau	Chief Executive Officer
Andrew Wild	Deputy Chief Executive Officer
Chris Davies	Deputy Chief Executive Officer
Anne-Lise Bapst	Head of Communication
Marine de Bazelaire	Head of Corporate Sustainability
Xavier Boisseau	Head of Global Banking and Markets
Myriam Couillaud	Head of Human Resources
Frédéric Coutant	Co-Head of Banking
Marwan Dagher	Head of Markets and Securities Services
François Essertel	Head of Private Banking
François Goberville	Chief Operating Officer, Global Banking and Markets
Lisa Hicks	Head of Strategy and Organisation
Marc de Lapérouse	Head of Legal
François Mongin	Head of Internal Audit
Jame Oulidi	Interim Chief Operating Officer
Matteo Pardi	Head of Asset Management
Geneviève Penin	Head of Corporate Governance & Secretariat
Hubert Preschez	Co-Head of Banking
Emmanuel Rémy	Chief Risk Officer
Simon Spilsbury	Head of Compliance
Joseph Swithenbank	Chief Financial Officer
Thomas Vandeville	Head of Retail Banking and Wealth Management

Every year, HSBC Continental Europe performs succession plans for roles considered as key with clear rules guiding this exercise in order to have robust succession plans, promoting gender balance as well as internal promotion. It is required to have at least four successors per role and a female successor for each of these roles as well as a breakdown of internal recruitments vs. external recruitments of 80 to 20. The succession plans were reviewed in 2020 on these bases, including in respect of the members of the Executive Committee. Additional information on the diversity policy are available in the chapter on Sustainability on page 67.

Additional information

Agreements governed by article L. 225-38 of the French Commercial Code

Article L. 225-38 of the French Commercial Code requires that any agreement entered into directly or indirectly between a company and one of its Directors or Chief Executives or Deputy Chief Executives, or between a company and one of its shareholders owning at least 10 per cent of the voting rights, or, in the case of a corporate shareholder, the company which controls it, must first be authorised by the Board of Directors and subsequently approved at the Annual General Meeting of shareholders. It also prohibits certain types of agreement between those parties, such as loans or guarantees.

During its meeting on 23 October 2020 the Board conducted its annual review of agreements already entered into that it had authorised previously and still in force.

Agreements authorised in 2020

A new agreement subject to the provisions of article L. 225-38 of the French Commercial Code was approved by the HSBC Continental Europe's Board of Directors during 2020:

- A sale agreement relating to the transfer of Visa Inc. Preferred C Shares from HSBC Continental Europe to HSBC Bank plc (meeting on 23 October 2020). This agreement was signed on 8 December 2020.

Agreements entered into in prior years and still in force and effect during 2020

Agreements entered into by HSBC Continental Europe and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2020. These were a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities, a group tax relief agreement, entered into in 2001, and a business and sale agreement between HSBC Bank plc Paris Branch and HSBC Continental Europe relating to the acquisition of its business relating to Equities and Equity Research as a going concern, authorised in February 2019 and entered into on January 2020.

The agreement renewed in 2015 between HSBC Holdings plc and HSBC Continental Europe, granting HSBC Continental Europe and its subsidiaries use at no charge of the HSBC brand, remained in full force and effect during 2020.

The indemnity agreement entered into in 2019 between HSBC Continental Europe and HSBC Bank plc and HSBC UK Bank plc in order to cover HSBC Bank plc and HSBC UK Bank plc for any amount that they may have to pay under obligations in which they remain debtors to the beneficiaries, that is clients entered into a relationship with HSBC Continental Europe as HSBC Bank plc and HSBC UK Bank plc would no longer be authorised to provide certain international trade instruments and services to companies located in the European Economic Area after the exit of United Kingdom from the European Union.

Additional information about the members of General Management and of the Board of Directors

Absence of conflicts of interest

To the Board's knowledge, there is no conflict of interest between the duties of Board members, including Executive Directors, with respect to HSBC Continental Europe and their private interests and/or other duties.

For the record, it has to be noted that at 31 December 2020, Samir Assaf is Chairman of the Board of HSBC Continental Europe and Chairman of Corporate and Investment Banking for the HSBC Group.

To the knowledge of HSBC Continental Europe, there is:

- no family relationship between Board members, including Executive Directors, of HSBC Continental Europe;
- no arrangement or understanding with a shareholder, a customer, a supplier or other pursuant to which one of the Board members, including Executive Directors, was selected.

The Board policy on conflicts of interest annexed to the Board's internal rules takes into account the corporate governance principles for banks published by the Basel Committee on Banking Supervision in July 2015. It includes in particular a list of questions to assist the Directors in identifying situations of conflict of interest, examples of situations that may give rise to conflicts of interest and situations the Board will generally determine that there are no conflicts of interest, and an application for authorisation and for declaration of a potential conflict of interest. In order to strengthen the conflict of interest avoidance mechanism, Directors must seek authorisation from the Board before accepting a mandate or position in a company or organisation outside the HSBC Group and a process of authorisation, review and possible withdrawal of authorisation by the Board is in place.

Absence of convictions

To the knowledge of HSBC Continental Europe, in the last five years, none of the Board members currently in office, including Executive Directors, has been the subject of a conviction for fraud, bankruptcy, receivership, liquidation or put into administration, official public incrimination and/or sanction pronounced by statutory or regulatory authorities, or has been disqualified by a court from acting as a member of an administrative, management or supervisory body of an issuer or from acting in the management or conduct of the affairs of an issuer.

Shareholders' general meeting

Meetings are open to all shareholders. They are convened and transact business in accordance with the provisions of the law and regulations in force. According to article 21 of the Articles of Association, all shareholders, whatever the number of shares they own, are entitled to attend General Meetings and to take part in the deliberations, personally or through a representative, provided their shares are paid up in full for payments that are due and are registered on an account in their own name no later than midnight, Paris time, on the second business day preceding the General Meeting. However, the author of the notice to attend has the option at all times to reduce this period of time, as he so sees fit.

All shareholders can also vote by correspondence using a form which can be sent to them in accordance with the conditions specified by the notice to attend the Meeting.

The Board of Directors can decide that shareholders will be allowed to take part and vote in all General Meetings by video conference or by any means of telecommunications making it possible to identify them in accordance with the legal and regulatory provisions.

Delegations given by the Shareholders' meeting to increase the share capital

	With pre-emptive rights
Issue of shares for cash or by capitalising reserves	
Date of authority	March 13, 2020
Expiry date	March 13, 2022
Maximum nominal amount	EUR 500 million
Used amount	EUR 0 million

Compensation

Compensation and benefits of Executive Directors

Remuneration policy

The remuneration of Executive Directors is adopted each year by the Board of Directors upon the recommendation by the Remuneration Committee, and approved by the Remuneration Committee of HSBC Holdings plc. It includes a fixed component and a variable component.

The fixed component is determined in accordance with, on one hand, market practices with the help, if needed, of specialist consulting firms and the other hand, Group benchmarks.

The variable component is determined on the basis of the overall HSBC Holdings and HSBC Continental Europe performance and indicators covering 'Financial Performance' targets (profit before tax, comparative growth between revenue and costs ('JAW'), return on capital, etc.), 'Strategic priorities' targets focused on sustainable profitability on optimised management of costs, a successful achievement of reorganisation projects, improvement of customer experience, strengthen of leadership capabilities and 'Risk and Compliance' targets with focus in particular in Financial crime and operational risks management and in strengthen of conducts aligned to our values, These indicators, embedded in a balanced-scorecard, are reviewed in comparison with the objectives set at the beginning of the year. All parameters taken into account result in a performance rating. The variable component also takes account of market trends and, if necessary, changes in regulations. In accordance with the HSBC Group's deferral rules, this variable component is paid partly in non-deferred and partly in deferred remuneration and partly in cash and partly in shares.Both Deputy CEO of HSBC Continental Europe, namely Head of CMB Europe and Head of International also have specific objectives related to their Business or scope of responsibility.

Award of shares

In 2020, Executive Directors benefited from the allocation of bonus shares in HSBC Holdings plc in accordance with the HSBC Group's general policy.

The HSBC Group awards various categories of bonus shares:

- Group Performance Shares are awarded, until 2015, to Executives of the HSBC Group and which have the following specific conditions:
  - a five-year vesting period;
  - a restricted period beyond the vesting period, which runs until retirement;
  - a performance condition measured using eight indicators (four financial and four non-financial) from the performance scorecard of the manager concerned;
- Restricted Shares, which are not subject to specific performance criteria but which are definitively awarded to employees still with the HSBC Group at the end either of a two- and three-year period, which is the period in force for France, or a five-year period for part of the 'Material risk takers' identified at Group level.

With respect to 2020, HSBC Continental Europe Executive Directors received Restricted Shares, for which the only criterion is to be with the company after a period of five years.

Supplementary pension scheme

The Executive Directors of HSBC Continental Europe have a defined benefits supplementary pension scheme. This plan guarantees members a pre-determined absolute supplementary pension income based on their length of service. In the event that the beneficiary dies, 60 per cent of this pension is payable to the surviving spouse. It is increased every year in line with the average rate applied to the French State pension scheme.

At 31 December 2020, Jean Beunardeau had accrued pension rights representing 11.6 per cent of his 2020 fixed remuneration and 6.3 per cent of his 2020 total remuneration. The provision corresponding to the present value of these HSBC Continental Europe pension commitments has been recorded in the HSBC Continental Europe accounts at 31 December 2020, for an amount of EUR 5.15 million.

Both Deputy CEO, Andrew Wild and Chris Davies are not entitled to this pension scheme, since they take benefit of a UK pension schemes linked to their employment contract.

Remuneration

Samir Assaf, Chairman of the Board of HSBC Continental Europe, does not receive any compensation or fees from HSBC Continental Europe. He is not a beneficiary of the HSBC Continental Europe supplementary pension scheme as he has an employment contract with another company of the HSBC Group and has access to a pension fund of the HSBC Group. The remuneration of Jean Beunardeau, CEO of HSBC Continental Europe, of Andrew Wild and of Chris Davies Deputy CEO of HSBC Continental Europe are detailed on next page.

Lastly, in terms of fringe benefits, Jean Beunardeau uses a car made available to him by the company for his professional needs and Andrew Wild is provided with a company car. The following information is published in accordance with the provisions of article L. 225-102-1, paragraphs 1, 2 and 3 and article L. 225-184 of the French Commercial Code. It concerns remuneration paid by HSBC Continental Europe, the companies it controls and the companies that control it (the HSBC Group). The remuneration of the Executive Directors below is presented in accordance with the *Autorité des marchés* financiers recommendations of December 2009[12]. Tables 4, 5 et 9 of this recommendation are not applicable.

[12] *Tables numbers refer to table models provided by the* Autorité des marchés financiers *in its 10 December 2009, as amended lastly on 13 April 2015, recommendation 2009-16 concerning the guide for compiling registration documents.*

Summary of compensation awarded to each Executive Director

Chief Executive Director[1]

	2017	2018	2019	**2020**
	Compensation paid in 2017	Compensation paid in 2018	Compensation paid in 2019	**Compensation paid in 2020**
	€	€	€	**€**
Jean Beunardeau				
Fixed remuneration	545,826	545,826	545,826	**545,826**
Allowance 'Material Risk Taker[2,3]	564,000	564,000	564,000	**564,000**
Variable remuneration in cash	244,033	272,000	251,697	**239,112**
Variable remuneration in shares[4]	244,033	272,000	251,697	**239,112**
Deferred variable remuneration in cash[5]	366,049	408,000	377,546	**358,668**
Deferred remuneration in shares without performance conditions[6]	366,049	408,000	377,546	**358,668**
Deferred remuneration in shares with performance conditions[7]	—	—	—	**—**
Directors' fees[8]	—	—	—	**—**
Benefits in kind	—	—	—	**—**
Total	2,329,990	2,469,826	2,368,312	**2,305,386**

	2017	2018	2019	**2020**
	Compensation for 2017	Compensation for 2018	Compensation for 2019	**Compensation for 2020**
	€	€	€	**€**
Jean Beunardeau				
Fixed remuneration	545,826	545,826	545,826	**545,826**
Allowance 'Material Risk Taker [2,3]	564,000	564,000	564,000	**564,000**
Variable remuneration in cash	272,000	251,697	239,112	**186,507**
Variable remuneration in shares[4]	272,000	251,697	239,112	**186,507**
Deferred variable remuneration in cash[5]	408,000	377,546	358,668	**279,761**
Deferred remuneration in shares without performance conditions[6]	408,000	377,546	358,668	**279,761**
Deferred remuneration in shares with performance conditions[7]	—	—	—	**—**
Directors' fees[8]	—	—	—	**—**
Benefits in kind	—	—	—	**—**
Total	2,469,826	2,368,312	2,305,386	**2,042,362**

1 *Deputy CEO then Chief Executive Officer since 10 January 2012.*
2 *Allowance awarded to 'Material Risk Takers' identified by Group according to the Prudential Regulatory Authority regulation.*
3 *This allowance is awarded monthly in form of cash.*
4 *Shares that vest immediately and are subject to a month's retention period for those granted until 2016 and one year for those granted from 2017.*
5 *Variable remuneration in cash deferred over five years (20 per cent per year will vest from year n+1).*
6 *Variable remuneration in shares without performance conditions deferred over five years (20 per cent per year from year n+1) and subject to a six months' retention period for awards granted until 2016 and one year for those granted from 2017*
7 *Variable remuneration in shares with performance conditions deferred over five years (100 per cent will vest in year n+5) and subject to a retention period up to retirement.*
8 *Renounced the payment of his Directors' fees by HSBC Continental Europe (see page 30).*

Deputy Chief Executive Officer[1]

	2017	2018	2019	**2020**
	Compensation paid in 2017	Compensation paid in 2018	Compensation paid in 2019	**Compensation paid in 2020**
	€	€	€	**€**
Andrew Wild				
Fixed remuneration	395,000	395,000	469,117	**491,072**
Allowance 'Material Risk Taker'[2,3]	98,000	98,000	98,000	**98,000**
Variable remuneration in cash	93,000	114,657	135,630	**133,500**
Variable remuneration in shares[4]	93,000	114,657	135,630	**133,500**
Deferred variable remuneration in cash[5]	62,000	76,438	90,420	**89,000**
Deferred remuneration in shares without performance conditions[6]	62,000	76,438	90,420	**89,000**
Directors' fees[7]	—	—	—	**—**
Benefits in kind[8]	4,626	4,626	4,626	**4,626**
Total	807,626	879,816	1,023,843	**1,038,698**

Deputy Chief Executive Officer[1] (continued)

	2017	2018	2019	**2020**
	Compensation for 2017	Compensation for 2018	Compensation for 2019	**Compensation for 2020**
	€	€	€	**€**
Andrew Wild				
Fixed remuneration	395,000	395,000	469,117	**491,072**
Allowance 'Material Risk Taker'[2,3]	98,000	98,000	98,000	**98,000**
Variable remuneration in cash	114,657	135,630	133,500	**107,100**
Variable remuneration in shares[4]	114,657	135,630	133,500	**107,100**
Deferred variable remuneration in cash[5]	76,438	90,420	89,000	**71,400**
Deferred remuneration in shares without performance conditions[6]	76,438	90,420	89,000	**71,400**
Directors' fees[7]	—	—	—	**—**
Benefits in kind[8]	4,626	4,626	4,626	**4,626**
Total	879,816	949,726	1,016,743	**950,698**

1 Deputy Chief Executive Officer since 1 March 2015.
2 Allowance awarded to 'Material Risk Takers' identified by Group according to the Prudential Regulatory Authority regulation.
3 Allowance awarded in form of cash on a monthly basis.
4 Shares that vest immediately and are subject to a twelve months' retention period.
5 Variable remuneration in cash deferred over five years (20 per cent per year will vest from year n+1).
6 Variable remuneration in shares without performance conditions deferred over over five years (20 per cent per year from year n+1) and subject to a twelve months' retention period.
7 Renounced the payment of his Directors' fees by HSBC Continental Europe (see page 30).
8 Company car. Is also entitled to an annual accommodation allowance, a travel allowance, a medical cover and a tax assistance.

Deputy Chief Executive Officer[1]

	2017	2018	2019	**2020**
	Compensation paid in 2017	Compensation paid in 2018	Compensation paid in 2019	**Compensation paid in 2020**
	€	€	€	**€**
Chris Davies				
Fixed remuneration			466,864.00	**519,129**
Allowance 'Material Risk Taker'[2,3]			77,831.00	**87,017**
Variable remuneration in cash				**146,623**
Variable remuneration in shares[4]				**146,623**
Deferred variable remuneration in cash[5]				**97,749**
Deferred remuneration in shares without performance conditions[6]				**97,749**
Directors' fees[7]	—	—	—	**—**
Benefits in kind[8]				
Total			544,695.00	**1,094,890**

	2017	2018	2019	**2020**
	Compensation for 2017	Compensation for 2018	Compensation for 2019	**Compensation for 2020**
	€	€	€	**€**
Chris Davies				
Fixed remuneration			466,864.00	**519,129**
Allowance 'Material Risk Taker'[2,3]			77,831.00	**87,017**
Variable remuneration in cash			146,623.00	**130,500**
Variable remuneration in shares[4]			146,623.00	**130,500**
Deferred variable remuneration in cash[5]			97,949.00	**87,000**
Deferred remuneration in shares without performance conditions[6]			97,949.00	**87,000**
Directors' fees[7]	—	—	—	**—**
Benefits in kind[8]				
Total			1,033,439.00	**1,041,146**

1 Deputy Chief Executive Officer since 8 February 2019.
2 Allowance awarded to 'Material Risk Takers' identified by Group according to the Prudential Regulatory Authority regulation.
3 Allowance awarded in form of cash on a monthly basis.
4 Shares that vest immediately and are subject to a twelve months' retention period.
5 Variable remuneration in cash deferred over five years (20 per cent per year will vest from year n+1).
6 Variable remuneration in shares without performance conditions deferred over over five years (20 per cent per year from year n+1) and subject to a twelve months' retention period.
7 As non Director he is not entitled to Directors' fees (see page 30).
8 Is entitled to an annual cost of living allowance, an accommodation allowance, a travel allowance, a medical cover and a tax assistance.

Shares awarded to each Executive Director in 2021 in respect of 2020

HSBC Holdings plc shares without performance conditions (Table 6)

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date	Date of availability
Jean Beunardeau	March 2021	ND	EUR 279,761	20% on each following dates:	20% on each following dates:
				March 2022	March 2023
				March 2023	March 2024
				March 2024	March 2025
				March 2025	March 2026
				March 2026	March 2027
Jean Beunardeau	March 2021	ND	EUR 186,507	March 2021	March 2022
Andrew Wild	March 2021	ND	EUR 71,400	20% on each following dates:	20% on each following dates:
				March 2022	March 2023
				March 2023	March 2024
				March 2024	March 2025
				March 2025	March 2026
				March 2026	March 2027
Andrew Wild	March 2021	ND	EUR 107,100	March 2021	March 2022
Chris Davies	March 2021	ND	EUR 87,000	20% on each following dates:	20% on each following dates:
				March 2022	March 2023
				March 2023	March 2024
				March 2024	March 2025
				March 2025	March 2026
				March 2026	March 2027
Chris Davies	March 2021	ND	EUR 130,500	March 2021	March 2022

Performance shares which became available for each Executive Director in 2020 (Table 7)

	Date of award	Number of shares which became available during the year	Vesting conditions
None			

HSBC Holdings plc shares vested for each Executive Director in 2020 (Table 8)

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Jean Beunardeau	2/3/2015	18,676	Performance shares
Jean Beunardeau	27/2/2017	11,409	—
Jean Beunardeau	28/3/2018	11,503	—
Jean Beunardeau	26/3/2019	12,249	—
Jean Beunardeau	24/2/2020	35,533	—
Andrew Wild	27/2/2017	1,932	—
Andrew Wild	28/3/2018	2,155	—
Andrew Wild	26/3/2019	2,933	—
Andrew Wild	24/2/2020	20,978	—
Chris Davies	27/2/2017	3,657	—
Chris Davies	26/2/2018	3,017	—
Chris Davies	26/3/2019	3,519	—
Chris Davies	24/2/2020	25,760	—

1 *The shares awarded under the UK plan in 2017, 2018 , 2019 and 2020 are available six or twelve months after the vesting.*

The shares awarded in 2017 were vested for 20 per cent in 2020.

The shares awarded in 2018 were vested for 20 per cent in 2020.

The shares granted in 2019 were vested for 20 per cent in 2020.

The shares awarded in 2020 were vested for 100 per cent in 2020.

HSBC Holdings plc free shares, without performance conditions, awarded in 2020 in respect of 2019, to the 10 employees whose number of awarded shares is the highest (Table 10)

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	24/2/2020	ND	EUR 3,336,365	March 2022 for 66 % and March 2023 for 34 %	6 or 12 months after the award

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 39 vests immediately and is available for sale after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, awarded in 2020 in respect of 2019, to the 10 employees whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	24/2/2021	ND	EUR 2,823,199	March 2021 or March 2023 for 66% and March 2024 for 34% or March 2022 to 2026 for 20% per year or March 2022, 2023, 2024 per tiers	6 or 12 months after the award

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 39) vests immediately and is available for sale six months or a year after the vesting.*

HSBC Holdings plc free shares, without performance conditions, vested in 2020, for the 10 employees whose number of awarded shares is the highest

	Number of shares vested[1]	Vesting dates
Total value of the 10 highest awards of shares, vested in 2020 (employees or former employees)	612,913	
– *of which award 2017*	*80,903*	*12.03.2020*
– *of which award 2018*	*99,472*	*11.03.2020*
– *of which award 2019*	*90,634*	*10.03.2020*
– *of which award 2020*	*341,904*	*24.02.2020*

1 *The shares awarded in 2017 and 2018 are available for sale six months after the vesting; those granted in 2019 are available 12 months after the vesting and those granted in 2020 under the UK plan are available for sale six or 12 months after the vesting.*

Other information required by the Corporate Governance Code (Table 2)

Executive Director Function First appointed Term ends	Employment contract	HSBC Continental Europe supplementary pension scheme[1]	Compensation or benefits due or that may be due upon termination or change in duties	Compensation due under terms of non-compete agreement	Participation in the share capital of the company and quantity of shares held
Jean Beunardeau Chief Executive Officer[2] 1 February 2010[3]	Suspended	Yes	No	No	No
Andrew Wild Deputy CEO 1 March 2015	Not applicable	No	No	No	No
Chris Davies Deputy CEO 8 February 2019	Not applicable	No	No	No	No

1 *See page 39.*
2 *CEO since 10 January 2012.*
3 *Date of appointment as Deputy CEO.*

Compensation policy for employees whose professional activities have a significant impact on the risk profile of the business

The following information is published in accordance with article 266 of the order of 3 November 2014 on internal control of banking sector companies, based on articles L. 511-64, L. 511-71 and L. 511-72 of the French Monetary and Financial Code and article 450 of ('UE') regulation 575/2013.

Decision-making process implemented to define the company's compensation policy

As HSBC Continental Europe is part of an international banking group, its compensation policy is defined at the level of the parent company. As part of a delegation by the HSBC Group's Board of Directors, the HSBC Group's Remuneration Committee is responsible for approving the compensation policy for the HSBC Group as a whole.

The compensation policy in place in France falls within the framework of this global policy, while also ensuring that local regulations, in particular those arisen from European Directive CRD III of July 2010 repealed by the Directive CRD IV of June 2013, since 1 January 2015 from AIFM Directive, since 1 January 2016 from Solvency II Directive and since 1 January 2017 from UCITS Directive are observed.

Especially in 2020, remuneration policy included ECB recommendations on the need to moderate the variable pay pools, in particular those awarded to Material Risk Takers, aiming to maintain an appropriate financial capacity in the Covid 19 crisis context (SSM-2020-0315 of 28 July 2020 and SSM-2020-0763 of 15 December 2020).

Two committees – the People Committee, in its limited perimeter, and the Remuneration Committee – play a predominant role in the overall process of implementing this policy.

In accordance with the article L 511-74 of the *Code Monétaire et Financier,* the compensation policy is submitted to an independent audit, once a year, performed by the Internal Audit department. The compensation policy is also approved by the local Regulatory Compliance department.

The People Committee, in its limited perimeter, made up of the main Senior Executives of HSBC Continental Europe (the Chief Executive Officer, the Deputy Chief Executive Officer in charge of the Commercial Banking, the Chief Risk Officer, the Head of Human Resources), reviews the main aspects of the compensation policy proposed by HR function for France and approves it. It ensures that this policy fits in with the general principles of the compensation policy set by the HSBC Group for all of its subsidiaries, and in the light of the specific directives set by the global business lines. Lastly, it gives an opinion on the policy's compliance with local professional standards and the recommendations of banking supervisory bodies in France such as the *Autorité de Contrôle Prudentiel et de Résolution* and the European Central Bank since 4 November 2014, the *Autorité des Marchés Financiers* and the *Fédération Bancaire Française.*

In addition, as regards variable compensation, it checks that all of the measures in place within the bank's various business lines adhere to the general principles defined in compensation policies edited by France Group and global business lines, and meet the requirements of supervisory committees. It reviews the variable compensation budgets allocated to local staff by the global business lines on the basis both of the overall performance of each business line and of the relative performance of local teams and by taking into account risk and compliance aspects. It approves the structure of these compensation pools, i.e. the breakdown between cash and shares, between immediate remuneration and deferred remuneration in accordance with the HSBC Group's rules and local professional standards.

Lastly, on an individual basis, after approval of the list, it reviews and validates the consistency of compensation paid to professionals whose activities have a significant impact on the company's risk profile (excluding People Committee's members), before submission to HSBC Group's decision-making bodies. It reviews the 20 highest compensation packages (excluding People Committee's members), in collaboration with the HSBC Group's decision-making bodies and global business lines. It reviews any individual breaches with respect to internal rules in term of credit risk, compliance and reputation, and for specific employees, to mandates provided for Volker and SRAB rules.

On the basis of the compensation policy papers prepared by the People Committee in its limited perimeter, the Remuneration Committee, chaired by an independent Director, gives his view on the bank's policies and practices concerning compensation, ensuring their consistency with the HSBC Group policy and their compliance with applicable local standards, as well as that risk management and compliance issues are taken into account.

Its scope of review covers all aspects of compensation policies and practices in place within the company, although with a more in-depth review concerning professionals whose activities have a significant impact on the risk profile of the business and Executive Directors.

Finally, it reviews the remuneration of any Executive Directors, of Head of Risk and Head of Regulatory Compliance and submit its proposals to the Board.

Main characteristics of the compensation policy

At HSBC Group level, the compensation policy defined takes into account, on one hand, the sustainable financial performance and the commercial competitiveness of the company as a whole and each of its businesses and, on the other hand, the overall performance regarding risk management, and finally the company's capacity to fund this policy on its own profit.

The main performance indicator used by the HSBC Group, to set variable compensation budgets, is the profit before tax before variable compensation and excluding the change in value of own debt due to credit spread and capital gains or losses on businesses' and subsidiaries' disposals.

On the other hand, it includes model and credit risk provisions.

Variable compensation budgets on a global basis and by businesses are reviewed and approved by the Group Chief Risk Officer, the Group CEO, the Group Chief Financial Officer and the Group Remuneration Committee. Once these variable compensation budgets are approved, they are divided, for each business/segment/product/function by regions and countries depending on their respective performance. Local performances are measured on one hand through financial metrics such as evolution of Profit Before Tax, growth in revenue on strategic objectives and focusing on synergy with other regions, costs control, comparison of revenue and cost trends ('JAWS'), evolution in profitability through, in particular, return on risk weighted assets. On the other hand through non-financial metrics such as management of risks focused in particular on improvement of financial crime risk culture, implementation of regulator or Audit recommendations, operational risks management, appropriate application of 'Conduct' principles in order to act in the interest of customers, being compliant with financial markets integrity and avoiding any conflict of interests. Lastly the performance measure is based on more generic indicators such as customer experience improvement, implementation of reorganisation and transformation projects, growth in women representation among Global Career Banding GCB 0-3.These indicators are included in performance scorecard and are analysed by comparison with objectives set at the start of the year.

These budgets are then granted in a differentiating manner according to the individual performance of each employee. The individual performance of an employee is appraised by the manager once a year at year-end and an appraisal based on four points rating scale, which was implemented for the year-end review in respect of 2014, is awarded:

- top performer;
- strong performer;
- good performer;
- inconsistent performer.

The four points performance rating scale aims to encourage differentiation in performance and variable compensation levels, accordingly.

The performance appraisal is based on achieving targets set for the employee by the manager at the start of the year. These targets include both qualitative criteria (observance of compliance and internal control rules, quality of sales or quality of service, risk management – especially in terms of operational risks and follow-up of audit points – customer recommendations, cross-businesses synergies, winning customers, etc.) and collective and/or individual financial criteria (income growth, cost control, growth of the profit before tax, etc.).

The indicators, which underpin these objectives, are a function of the position held and the level of responsibility, and are appraised by comparison to the previous year and against the current year budget.

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

In compliance with the rules under CRD III and CRD IV directives, some employee categories are subject to specific rules regarding variable compensation award. These employees, considered to have an impact on the entity's risk profile ('Material Risk Takers'), were identified on the basis of qualitative and quantitative criteria defined by the European Banking Authority in March 2014. Pursuant to these criteria, the HSBC Group, which is itself submitted to this regulation, identified at HSBC Continental Europe level a list of 65 employees coming under this Material Risk Takers category.

As these new criteria have to be applied both at a consolidated and an individual basis, an additional list of 67 employees who can have a significant impact on the company's risk profile at a local level was added to this list of Material Risk Takers identified at HSBC Group level.

This whole list of 132 employees includes mainly the executive directors, the heads of business lines, the heads of risk functions and the market operators who have an impact on the company's risk profile.

For this population, variable remuneration are limited to twice the fixed remuneration, according to the decision made by HSBC Continental Europe shareholders' general meeting held on 23 May 2014. In order to maintain the competitiveness of Material Risk Takers remuneration, Group has modified the remuneration of several of them by allocating a monthly fixed pay allowance linked to their function. In addition their variable remuneration is deferred by 40 per cent and even by 60 per cent for the highest variable. Finally, variable remuneration granted in the form of shares accounts for 50 per cent of variable remuneration granted; this 50 per cent applies to both the deferred component and to its immediately paid fraction.

It should be noted that if the variable remuneration amount is lower than 33 per cent of total remuneration and lower than EUR 100,000, the variable remuneration is granted in cash immediately paid and deferred shares according to HSBC Group standard deferred rules.

For this population as a whole, 42 per cent of variable remuneration is deferred, and variable remuneration represents 37 per cent of total remuneration. For French employees, the deferred share-based portion is not vested by the employee until after either a period of two years for 66 per cent and after three years for the remaining 34 per cent or a period of two years for 40 per cent, three years for 20 per cent, four years for 20 per cent and five years for the remaining 20 per cent. This is furthermore subject to a six-month or one-year retention period starting from vesting, and there is a prohibition on hedging it.

For impatriates or employees working in European branches, deferred shares vest over three years (33 per cent, 33 per cent, 34 per cent).

With effect from 1 January 2017, management companies under certain conditions are governed by the UCITS Directive in addition to the Alternative Investment Funds Management ('AIFM') Directive already in place since 1 January 2015. In accordance with these Directives, categories of employees of HSBC Global Asset Management (France) and HSBC REIM (France) are subject to specific rules in term of variable remuneration. The employees concerned, are those whose professional activity has a significant impact on the risk profile of the management company or its alternative investment funds. The list of these risk takers mainly comprises Executive Directors, Heads of Risk functions, Finance function and Legal function, Heads of Sales, Heads of Funds Management and Head of Branches. In 2020, a total of 46 risk takers have been identified. For this population, subject to having a variable remuneration of more than EUR 200,000 and representing more than 30 per cent of fixed pay, variable remuneration is 40 per cent deferred if it is lower than GBP 500,000 and 60 per cent deferred for variable remuneration of more or equal to GBP 500,000. For risk takers with a variable remuneration deferred at 40 per cent, the variable remuneration is composed as follows:

50 per cent in immediate cash,10 per cent in cash variable indexed on the funds' performance, 40 per cent in cash variable deferred one-third over three years and indexed on the funds performance. For risk takers with a variable remuneration deferred at 60 per cent, the variable remuneration is composed as follows: 40 per cent in immediate cash,10 per cent in deferred cash that vest in three annual tranches, 50 per cent in cash variable deferred one-third over three years and indexed on the fund's performance. Risk takers who do not meet the conditions above are subject to Group deferral standard rules.

Finally, with effect from 1 January 2016, HSBC *Assurance Vie* employees identified as risk takers under Solvency II Directive are bound by the remuneration requirements set out in this directive.

Eligible employees

In accordance with this Directive, categories of employees of HSBC Assurances Vie (France) identified as risk takers are subject to specific rules in term of variable remuneration. The employees concerned are:

- Board of Directors members*;
- Executive Directors: Chief Executive Officer and deputy Chief Executive Officer;
- Key functions: Heads of Risk functions, Head of Compliance, Head of Actuarial, Head of Audit;
- Head of Finance: Board committee member of HSBC *Assurances Vie* (France) and under his strategic function in the company.

* *except two members who have the status of external 'non executive' Director.*

In 2020, 17 employees have been identified as risk takers under Solvency II.

Impact on the variable remuneration

For this population, a part of their variable remuneration is deferred. This deferred part comprises shares that totally vest after a three years vesting period and that is applied under specific conditions described below:

- 60 per cent of the variable remuneration is deferred when its total amount is equal or above GBP 500,000;
- 40 per cent of the variable remuneration is deferred when its total amount is under GBP 500,000.

However, risk takers whose variable remuneration is lower than GBP 500,000 (or an equivalent amount in local currency) and whose variable remuneration is under 33 per cent of their total compensation, are considered as '*de minimis*'. On this basis, they are subject to Group deferral standard rules.

It should be noted that beyond this Material Risk Takers population, the great majority of the company's senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2020, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, and to which the above rules on vesting apply. Nevertheless, deferred shares are no longer subject to any retention period.

Lastly, since disclosure of 'Loi Pacte', a 'Malus' system now applies to all employees receiving deferred bonuses. This allows the HSBC Group's Remuneration Committee to cancel, reduce or amend all or part of bonuses awarded on the basis of the employee's behaviour or factors justifying such action.

To be also noted that all vested awards are subject to the Group 'Clawback' policy.

Guaranteed bonuses are highly exceptional, limited to one year and only in a hiring context.

In accordance with CRD IV Directive

Consolidated quantitative information about compensation paid to executive members and financial market professionals, whose activities have a material impact on the company's risk exposure.

Amounts are expressed in EUR and correspond to gross salary (excluding employer social security contributions and before deduction of payroll costs).

Remunerations awarded to overall staff

	Full time Equivalent 2020[1]	Total remuneration 2020 €
Executive members	3	4,029,581
Global Banking and Markets	607	91,588,977
Retail Banking	3,470	174,291,250
Private Banking	91	9,906,580
Commercial Banking	1,233	73,542,247
Global Functions and Other	1,834	127,129,818
Total (France perimeter)	**7,238**	**480,488,452**
HSBC Continental Europe, Athens Branch (Greece)	334	17,539,475
HSBC Continental Europe, Spanish Branch (Spain)	136	15,973,880
HSBC Continental Europe, Dublin Branch (Irland)	117	12,813,740
HSBC Continental Europe, Pobocka Praha (Czech Republic)	79	4,608,940
HSBC Continental Europe, Milan Branch (Italy)	115	14,584,867
HSBC Continental Europe, Amsterdam Branch (Netherlands)	59	6,369,835
HSBC Continental Europe, Luxembourg Branch (Luxembourg)	262	24,677,592
HSBC Continental Europe, Poland Branch (Poland)	142	7,921,560
HSBC Continental Europe, Brussels Branch (Belgium)	25	2,622,623
HSBC Continental Europe, Stockholm Branch (Sweden)	10	1,683,695
Total (international perimeter)	**1,279**	**108,796,207**
Total (France and International perimeter)	**8,517**	**589,284,660**

1 *Staff as of 31 December 2020 excluding trainee, CFCS, and pre-retirements.*

Remuneration awarded to Executive members and professionals whose roles have a significant impact on risk profile of the company

Total remuneration: distribution between fixed pay and variable pay

	Number of people concerned	Total remuneration 2020 €	Total fixed pay €	Total variable pay €
Executive members	3	4,029,581	2,305,044	1,724,537
Global Banking and Markets	38	26,205,719	16,633,864	9,571,855
Retail Banking	14	7,158,458	4,127,302	3,031,156
Private Banking	5	1,987,202	1,133,000	854,202
Commercial Banking	10	3,119,179	2,065,000	1,054,179
Global Functions and Other	39	9,321,641	6,927,403	2,394,238
Total (France perimeter)	**109**	**51,821,780**	**33,191,613**	**18,630,167**
Total (international perimeter)	**23**	**10,823,132**	**6,565,096**	**4,258,036**
Total (France and International perimeter)	**132**	**62,644,912**	**39,756,709**	**22,888,203**

Total variable pay: distribution between payments in cash and payments in shares

	Payments in cash €	Payments in shares €	Total variable pay €
Executive members	862,269	862,269	1,724,537
Global Banking and Markets	4,818,927	4,752,927	9,571,855
Retail Banking	1,571,378	1,459,778	3,031,156
Private Banking	454,101	400,101	854,202
Commercial Banking	527,090	527,090	1,054,179
Global Functions and Other	1,636,548	757,691	2,394,238
Total (France perimeter)	**9,870,312**	**8,759,855**	**18,630,167**
Total (international perimeter)	**2,216,176**	**2,041,860**	**4,258,036**
Total (France and International perimeter)	**12,086,488**	**10,801,715**	**22,888,203**

Total variable pay: distribution between non deferred and deferred amount

	Non-deferred amount €	Deferred amount €	Total variable pay €
Executive members	848,215	876,322	1,724,537
Global Banking and Markets	5,239,530	4,332,325	9,571,855
Retail Banking	1,697,758	1,333,398	3,031,156
Private Banking	534,121	320,081	854,202
Commercial Banking	632,507	421,672	1,054,179
Global Functions and Other	1,781,953	612,285	2,394,238
Total (France perimeter)	10,734,084	7,896,083	18,630,167
Total (international perimeter)	2,624,548	1,633,488	4,258,036
Total (France and International perimeter)	13,358,632	9,529,571	22,888,203

Total deferred variable pay: distribution between payments in cash and payments in shares

	Payments in cash €	Payments in shares €	Total deferred variable pay €
Executive members	438,161	438,161	876,322
Global Banking and Markets	2,162,662	2,169,662	4,332,325
Retail Banking	320,436	1,012,962	1,333,398
Private Banking	160,040	160,040	320,081
Commercial Banking	210,836	210,836	421,672
Global Functions and Other	290,810	321,475	612,285
Total (France perimeter)	3,582,946	4,313,137	7,896,083
Total (international perimeter)	816,744	816,744	1,633,488
Total (France and International perimeter)	4,399,690	5,129,881	9,529,571

Amount of unvested deferred variable pay in respect of previous financial years

	Amount of unvested deferred variable pay in respect of previous financial years €
Executive members	2,743,431
Global Banking and Markets	14,820,728
Retail Banking	3,628,937
Private Banking	723,145
Commercial Banking	713,949
Global Functions and Other	2,418,624
Total (France perimeter)	25,048,813
Total (international perimeter)	3,401,077
Total (France and International perimeter)	28,449,890

This table shows outstanding deferred variable pay corresponding to total unvested deferred remuneration before the 31 December 2020, i.e. variable pay that has been awarded but not yet paid (cash) or delivered (shares) and which is still subject to a future 'malus' mechanism or early departure. Shares and equivalent instruments are valued on the share value as at 31 December 2020. Outstanding vested variable pay in respect of prior year can be impacted by departures from the company.

Amounts paid in respect of hiring (guaranteed variable)

	Number of people concerned	Amount paid in respect of hiring (guaranteed variable) €
Executive members	–	–
Global Banking and Markets	–	–
Retail Banking and Private Banking	–	–
Commercial Banking	–	–
Global Functions and Other	–	–
Total (France perimeter)	–	–
Total (international perimeter)	–	–
Total (France and International perimeter)	–	–

The first column corresponds to all sums paid on termination of the employment contract (severance payment), which include redundancy compensation and contractual indemnities.

Amount of severance payments

	Number of people concerned	Amount of severance payments €
Executive members	–	–
Global Banking and Markets	2	3,113,300
Retail Banking	1	710,751
Commercial Banking	1	539,240
Global Functions and Other	2	2,814,352
Total (France perimeter)	**6**	**7,177,642**
Total (international perimeter)	**1**	**86,777**
Total (France and International perimeter)	**7**	**7,264,419**

Contributions to defined benefit plan

	Number of people concerned	Contribution to defined benefit plan €
Executive members	1	549,794
Global Banking and Markets	–	–
Retail Banking and Private Banking	–	–
Commercial Banking	–	–
Global Functions and Other	–	–
Total (France perimeter)	**1**	**549,794**
Total (international perimeter)	**–**	**–**
Total (France and International perimeter)	**1**	**549,794**

Information on highest remunerations

Total remuneration

	Number of Material Risk Takers
Between 1 million and 1.5 million excluded	4
Between 1.5 million and 2 million excluded	1
Between 2 million and 2.5million excluded	2
Total	**7**

In accordance with AIFM Directive

Consolidated quantitative information about compensation paid to executive members and financial market professionals, whose activities have a material impact on the company's risk exposure in the entities HSBC Global Asset Management (France) and HSBC REIM (France).

Amounts are expressed in EUR and correspond to gross salary (excluding employer social security contributions and before deduction of payroll costs).

HSBC Global Asset Management and HSBC REIM (France)

	Total fixed pay €	Total variable pay €	Total Remuneration €
Total of Employees (number: 369)	27,552,919	8,831,253	36,384,172
Including employees who have a significant impact on the risk profile AIFMD (number: 46)[1]	7,183,035	4,356,850	11,539,885
Including Senior Managers (number: 22)	3,374,582	1,680,386	5,054,968

1 *Including 4 Executive managers who are already in the CRD IV material risk takers.*

In accordance with Solvency II Directive

Consolidated quantitative information about compensation paid to employees identified as Solvency II staff in the entities HSBC *Assurances Vie* (France).

Amounts are expressed in EUR and correspond to gross salary (excluding employer social security contributions and before deduction of payroll costs).

	Total fixed pay €	Total variable pay €	Remuneration €
Employees identifies as Solvency II staff (number: 17)[1]	4,066,760	2,377,717	6,444,477

1 *Including 11 Executive managers who are already in the CRD IV material risk takers.*

PricewaterhouseCoopers Audit
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Statutory Auditors' special report on related-party agreements

This is a free translation into English of the Statutory Auditors' special report on related-party agreements issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

(Annual General Meeting for the approval of the financial statements for the year ended 31 December 2020)

HSBC Continental Europe (formerly HSBC France)

38, avenue Kléber

75116 Paris

To the Shareholders,

In our capacity as Statutory Auditors of HSBC Continental Europe, we hereby report to you on related-party agreements.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of the agreements that have been disclosed to us or that we may have identified as part of our engagement, as well as the reasons given as to why they are beneficial for the Company, without commenting on their relevance or substance or identifying any undisclosed agreements. Under the provisions of article R.225-31 of the French Commercial Code *(Code de commerce*), it is the responsibility of the shareholders to determine whether the agreements are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by article R.225-31 of the French Commercial Code in relation to the implementation during the year of agreements already approved by the Annual General Meeting.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. These procedures consisted in verifying that the information provided to us is consistent with the underlying documents.

Agreements to be submitted for the approval of the Annual General Meeting

Agreements authorised and entered into during the year

In accordance with article L.225-40 of the French Commercial Code, we were informed of the following agreement that was entered into during the year and authorised in advance by the Board of Directors.

With HSBC Bank plc, a company controlling a shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights

Nature and purpose:

At its meeting on 23 October 2020, the Board of Directors authorised an agreement between HSBC Continental Europe and HSBC Bank plc concerning the sale of Visa Inc. class C preferred shares.

Terms and conditions:

The agreement was entered into on 8 December 2020.

The two parties agreed on the methods for determining the shares concerned by the transaction, the methods for setting the sale price and the payment terms.

The sale price amounted to USD 38,461,712.37.

Reasons why the agreement is beneficial for the Company:

The purpose of the agreement is to allow HSBC Continental Europe to "to remove a non-core asset from its balance sheet and to eliminate from its income statement both the volatility related to the valuation of the shares and the consumption of RWA and equity linked to the holding thereof."

Agreements to be submitted for the approval of the Annual General Meeting

Agreements approved in prior years

a) that were implemented during the year

In accordance with article R.225-30 of the French Commercial Code, we were informed of the following agreements, approved by the Annual General Meeting in prior years, which were implemented during the year.

With HSBC Bank plc Paris Branch, a company controlling a shareholder company of HSBC Continental Europe and owning more than 10 % of the voting rights

Three agreements entered into in 2001 between HSBC Continental Europe and HSBC Bank plc Paris Branch also remained in effect in 2020:

- A shared services agreement to provide its members, at cost, with various services related to the two companies' business activities.
- An agreement by which HSBC Continental Europe provides HSBC Bank plc Paris Branch with services related to various business activities.

With respect to these two agreements, the income recorded in 2020 amounted to EUR 1.8 million.

- A tax integration agreement between HSBC Bank plc Paris Branch and HSBC Continental Europe. With respect to this agreement, tax income of EUR 28.5 million was recorded in 2020.

An agreement authorised on 19 February 2019 and entered into on 31 January 2020 concerning the transfer of the Equities and Equity Research activities from HSBC Bank plc Paris Branch to HSBC Continental Europe. The sale price amounted to EUR 4,000,000 and was offset against the amount of the liabilities transferred.

With HSBC Holdings plc, a company controlling a shareholder company of HSBC Continental Europe and owning more than 10 % of the voting rights

The agreement renewed in 2015 provides for the free use of the HSBC brand by HSBC Continental Europe and its subsidiaries. It had no impact on the 2020 financial statements.

b) that were not implemented during the year

In addition, we were informed of the following agreements, approved by the Annual General Meeting in previous years, which were not implemented during the year.

With HSBC Bank plc and HSBC UK Bank plc, respectively a company controlling HSBC Continental Europe and a company controlling a shareholder company of HSBC Continental Europe, both owning more than 10% of voting rights

The indemnification agreement entered into in 2019 between HSBC Continental Europe and HSBC Bank plc and HSBC UK Bank plc in order to indemnify HSBC Bank plc and HSBC UK Bank plc for any costs that they may still be required to pay pursuant to their obligations to their beneficiaries, who have become customers of HSBC Continental Europe as a result of HSBC Bank plc and HSBC UK Bank plc no longer being authorised to supply certain instruments and international trade services to companies situated in the European Economic Area (EEA) following the withdrawal of the United Kingdom from the European Union.

Neuilly-sur-Seine and Paris, 24 February 2021

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO Paris Audit & Advisory**
Agnès Hussherr	Michel Léger
Partner	Partner

Sustainability

Statement on extra Financial Performance

HSBC Continental Europe's business model

Activities and strategy

The business model for HSBC Continental Europe, showing its scope, main resources, main business areas and activities, its strategy and its prospects is set out in the Presentation of activity and strategy part page 4.

Sustainability Governance

Through its business activities, HSBC aims to support the long-term success of its clients and employees and of the communities in which it operates. HSBC Continental Europe is fully committed to the course of action adopted by the Group and presented in its strategy report (https://www.hsbc.com/investors/results-and-announcements).

In 2008, in order to deploy and effectively implement this strategy in France, HSBC Continental Europe created a Sustainability Department, reporting to the Chief Executive Officer and to Global Corporate Sustainability. The department has a seat on the bank's executive committee. Consisting of a team of five, it co-ordinates the definition and implementation of action plans developed in collaboration with representatives of each of the relevant business lines.

These sustainability representatives meet every two months in a Climate Business Council, whose main purpose is to report on progress or constraints in the deployment of this strategy. Additional governance committees have been set up in certain business lines and functions. These committees mirror the global governance process.

This chapter supplements the extra-financial information presented in the strategy document to be published by the Group in February 2021 and made available on the Group website (http://www.hsbc.com/our-approach/measuring-our-impact). The Group's next ESG report will be incorporated in the Group Strategy Document.

Identifying material ESG risks for HSBC Continental Europe

A responsible business culture

HSBC has set itself the task of bringing together people and opportunities. The goal creates for us a duty of care to our customers, to society in the broad sense of the term and to the integrity of the financial system.

Non Financial risks

HSBC uses a variety of tools to identify and manage its non-financial risks, including its appetite for risk, risk mapping, a list of top and emerging risks and stress testing. It also relies on surveys involving employees and customers, dialogue with customers and investors, and the annual ESG survey carried out among investors.

In 2020, HSBC Continental Europe reviewed the environmental, social and governance risk map that it had prepared in 2019. This analysis of the most material ESG risks over the short, medium and long term identifies nine ESG themes that present a material risk for HSBC Continental Europe, along with three themes required by the 19 July 2017 order relating to the publication of non-financial information:

- Four risks relating to banking activity:
  - Risk of customer disappointment (theme 1)
  - Risk relating to the non-alignment of emissions financed with a net zero pathway (theme 2)
  - Risk relating to the non-alignment of the bank's operational carbon footprint with a net zero pathway (theme 3)
  - Economic and social risk relating to increases in vulnerable populations (theme 4)
- Three themes involving human capital:
  - Risk of inability to ensure the employability of our employees given the transformation of the banking sector (theme 5)
  - Risk of failure to recruit and retain talent (theme 6)
  - Risks related to lack of diversity among teams and psychosocial risks (theme 7)
- Five themes involving governance risks:
  - Risks of money laundering and financial crime (theme 8)
  - Risks of corruption* (theme 9)
  - Risks relating to tax evasion* (theme 10)
  - Risks in the areas of cybersecurity and IT attacks (theme 11)
  - Risks in terms of non-compliance with Human Rights* (theme 12).

At the end of 2019, rating agency Sustainalytics assessed HSBC Continental Europe in terms of its management of ESG risks, putting it in the low-risk category.

* *required by the directive on the Extra Financial Performance*

Managing material ESG risks

Developing a sustainable economic system is important for each of us. All members of society have a shared duty to come up with solutions to climate change, technological transformation and globalisation in order to ensure future prosperity.

HSBC is aware that governments, companies, the financial system and civil society are all stakeholders in fighting climate change and addressing the challenges of sustainable development.

It is with this in mind that HSBC manages the risk that the financial services which it provides to customers may not meet their expectations or may have unacceptable impacts on people or the environment. Sustainability risks can also lead to commercial risk for customers, credit risk and reputational risk for the bank.

As a result, we have established policies to address these risks, as follows:

Managing the risk of customer disappointment: Listening to our customers to meet their needs (theme 1)

The HSBC Group remains committed to listening to customers, whose feedback has helped us improve our products and services.

We also have clear policies, frameworks and governance in place to protect our customers. These cover the way we behave, design products and services, train and incentivise employees, and interact with clients.

The Bank will keep on working to simplify processes and optimise the customer experience, particularly in terms of being contactable, having pro-active relationship managers and improving the customer pathway.

To guide this work, we measure and report on customer satisfaction data for all of our business lines within our Strategy Report.

Monitoring customer recommendation and satisfaction rates in Private Banking and Wealth Management in France

In France, HSBC aims to be the first-choice wealth manager for its customers, and strives for excellence in the service and customer experience it provides. HSBC's customers lie at the heart of its approach.

Customer satisfaction in retail banking in France

2020 saw a change in the methodology used to measure the Customer Experience. Since January, in each area, customers are asked to give a recommendation score for HSBC with reference to the banking relationship with their adviser or the interaction they have had (Customer Relations Centre, On-line Banking, Branch). A Net Promoter Score ('NPS') is calculated from their responses as the difference between the proportion of promoters (customers giving a score of 9 or 10) and detractors (customers awarding between 0 and 6).

In 2020, more than 47,000 individual customers were surveyed, with positive results in a difficult public health situation that reflect the commitment of our teams to providing effective support to their customers.

Although the banking relationship with key contacts has suffered from these conditions (due to branch closures and remote working), HSBC demonstrated its ability to respond effectively to customers across all channels. As a result, the NPS scores measured for remote access channels were strong: +50 on average over the year for the Customer Relations Centre, with continuous gains over the year (more than 60 per cent of customers gave a score of 9 or 10) and +31 for users of the secure on-line space (nearly 55 per cent giving 9 and 10 scores). The scores obtained in the final four months of the year for branch visits (this channel having been closed between April and August) also reflected the quality of service provided by staff (NPS of +47 per cent of customers from 31 per cent in 2019).

Having won a number of awards in the *Trophées de la Banque* in 2019, the retail bank of HSBC Continental Europe was named best traditional bank for students for the second year running in 2020, thanks to its banking package, charges and interest rates (*Prix Sélectra* – comparing 124 offerings).

Monitoring of retail customer complaint

In 2020, the number of customer complaints decreased by 13 per cent compared with 2019. It should be noted that overall, the Covid-19 effect has not generated a significant increase in complaints. Over the year, that's nearly 10,000 fewer claims entered compared to 2019. This demonstrates the adaptability that the network and head office teams have shown to support customers and contain dissatisfaction due to pandemic-linked disturbances.

The quality and speed with which complaints are handled remain at the heart of the priorities and continued to be closely monitored. Despite the context of the health crisis and the impacts on the organisation, especially on complex complaints requiring back office intervention, response times remained good: 63 per cent of complaints (vs 68 per cent in 2019) were processed on the same day or the following day; and 77 per cent (versus 80 per cent in 2019) were processed within five working days.

The main causes of complaints among retail customers in 2020 were as follows:

- complaints about pricing: 23 per cent of complaints (mainly about charges dispute/explanation);
- customer service and support: 13 per cent of complaints mainly linked to the lack of visibility of pending requests ;
- complaints about delays with closing accounts: 13 per cent of complaints mainly about delays in processing;
- complaints in bank and life insurance succession, 8 per cent of complaints mostly about delays in processing.

The number of complaints involving the ombudsman fell by 24 per cent versus 2019.

Monitoring of customer satisfaction in Private banking

HSBC Private Banking in France pays particular attention to the opinions and suggestions of its clients so to improve its range of products and services, in which it aims to achieve excellence.

Every year, HSBC Private Banking in France invites its customers to take part in a survey to gain feedback on their experiences and identify areas for improvement, with two main themes:

- level of satisfaction in the offering of products and services and the advice provided;
- level of confidence in HSBC Private Banking in France and its staff.

The 2020 survey showed that customer satisfaction with HSBC Private Banking in France remained identical to its level in 2019 (rated 8.2/10 in 2020). Customer satisfaction with their key contacts also scored highly this year. Customers scored their relationship with their Private Banker at 8.7/10 and their relationship with other members of the advisory teams (investment, credit, wealth management) and product specialists at 8.5/10.

There was also an increase (+23 per cent) in customer satisfaction with the quality of advice and recommendations provided and followed up by teams from HSBC Private Banking in France (80 per cent satisfaction in 2020).

93 per cent of customers surveyed reported that they achieved their financial goals in 2020 thanks to a clear and effective financial strategy (96 per cent of customers surveyed) with excellent value for money (89 per cent of customers surveyed).

The general level of confidence increased over the year (63 per cent of clients said they had confidence in HSBC Private Banking in France in 2020, from 59 per cent in 2019), as did the percentage of clients saying they would recommend our services (47 per cent of customers from 31 per cent in 2019).

Monitoring of customer satisfaction in Commercial Banking

2020's health crisis has transformed the banking relationship and, more broadly, the way companies have organised themselves. Commercial Banking adapted to ensure continuity of operations during lockdown periods by accelerating the digitalisation of our main processes, transactions and subscriptions to new products and services, making more widespread use of electronic signatures, and implementing government measures such as payment deferrals and government-guaranteed loans. As part of the annual HSBC Customer Relationship 360 satisfaction survey 94 per cent of customers surveyed* agreed with the following statement: "the continuity of my operations management has been ensured". Communication campaigns via the website and social media, coupled with a proactive approach from commercial teams, helped maintain close links with our business customers (31 per cent of customers* were contacted several times per month by their account managers).

Meanwhile, within the framework of the quality plan, particular attention was paid to transparency on pricing, with simplified billing for certain transactions (such as international transfers) and simpler, clearer and more regular communication on standard or specific terms applicable to transactions.

Commercial Banking customer satisfaction levels are monitored as part of an annual survey covering the entire relationship as well as by a monthly survey, part of an HSBC Group programme, on key moments in the relationship such as opening an account or requesting credit.

In 2020, the annual HSBC Relation Clients 360° survey, conducted by Kantar, took place in November. A sample of 1,000 customers, drawn from Commercial Banking's three segments – SME, MME and Large Corporate – were interviewed by telephone. On a scale from one to ten, the overall satisfaction rating was 6.8 (average across the three segments), which was stable on 2019. In addition, monthly online surveys of customers as part of the group-wide programme to review key moments in the banking relationship help us better understand our customers' experiences and expectations. Survey results are constantly fed back into the process of reviewing ways in which we can simplify our processes.

* *Annual HSBC Relation Clients 360° survey of 1,000 customers, conducted by Institut Kantar in November 2020.*

Commercial Banking customer complaints handling in France

In Commercial Banking in France, the number of complaints fell 17 per cent in 2020 (1,321 in 2020 versus 1,592 in 2019). The Covid crisis has had an impact on the type of complaints received with 19 per cent of complaints related to it. In this typology of Covid-related claims, 75 per cent concerned credit (postponement of loan maturities and State Guaranteed Loans), and 15 per cent concerned means of payment.

The top nine reasons for other complaints account for 62 per cent of the total. Of these, 57 per cent were about account management issues, 32 per cent were about payments and 11 per cent about trade finance.

43 per cent of complaints were handled within five business days, versus 45 per cent in 2019 and 66 per cent in fewer than 15 business days, versus 69 per cent in 2019. Meanwhile the processing times related to Covid claims were longer (20 days on average) than those for other complaints (14 days on average).

After analysing these complaints, we have prepared and are implementing action plans to improve procedures and to raise both service quality and customer satisfaction.

Middle Office operational teams and project teams have optimised the process for initiating customer relationships both in France and abroad, cutting processing time by a factor of three across the two processes.

Investing in digital to better support customers

Against a fast-moving economic, political and technological background, it is more important than ever to manage risks, achieve operational excellence and seize growth opportunities. The shift to digital technology, the challenges of the circular economy and new value chains mean that we have to rethink and reinvent the bank–customer relationship. The HSBC Group is fully aware of these issues and is investing heavily in solutions that will make our services ever more simple, fluid, transparent and immediate for our customers.

More than ever, our Private Banking and Wealth Management business in France must become more efficient and get to know its customers better in order to maintain and improve its value proposition and service quality in a difficult market context. For individual clients, the main initiatives in 2020 were:

- The deployment of tools and practices that allow staff teams to be reached even when working from home (Jabber), provide customers with video-conferencing facilities (Zoom), and improve and accelerate the response rate for emails;
- Adjustments for Call Centre teams as a key link in contacting branch staff (hours, team specialisation in certain topics, expansion of range of transactions handled, etc.);
- Simplification of digital pathways (elimination of a code for digital activation, expansion of functions available from mobile phones, etc.);
- Improvements to the main customer pathways, with the option of electronic signature for life assurance arbitrage, subscription and one-off payments, simplified on-line account opening (including for legal entities).

Commercial Banking has continued to improve its e-signature processes, and can now integrate new documents digitally in order to reduce the number of hard-copy documents sent through the post.

Also, Global Banking and Markets has invested in developing digital platforms that allow more efficient and responsible management:

- Cash Flow Forecasting is an additional service on the Liquidity Management Portal that was launched last year. Directly accessible on HSBCnet, this solution gives customers a quick and accurate insight into their future cash needs.It enables customers to improve the management of liquidity risk by increasing the accuracy and quality of cash flow forecasting. This integrated solution predicts all the cash movements that will have an impact on their day-to-day cash position for up to three years in the future.
- The cash flow APIs are a new channel of banking communication, which allow clients to make payments and consult balances and account entries. This HSBC solution helps customers optimise cash management through automated transactions, on a continuous real-time basis. For example, customers can track international payment orders until they are registered on the beneficiaries' accounts.
- Soft Token Net: HSBCnet is HSBC's internet platform for its corporate customers. Secure access is protected by a one-time password generated by a physical token (keypad). As part of the improvements to the HSBCnet customer experience, since April 2020, HSBC Continental Europe customers have been able to connect to the web platform with their smartphone. Directly integrated within the HSBCnet mobile app, the soft token function allows the customer to generate a one-time password from their phone, using biometric security (fingerprint or FaceID) with no additional system needed. HSBCnet customers can therefore use either their physical token (keypad) or soft token (smartphone) according to how they want to connect. The soft token also replaces the physical token for on-line signature requirements.

HSBC Private Banking in France has made it easier to access information and its expertise during the period of restrictions on travel and face-to-face meetings with clients by a varied offering of digital content that is accessible to all.

HSBC Private Banking in France also offers its customers regular webinars presented by internal and external experts on current themes (investment, markets, philanthropy, sustainable finance, etc.).

HSBC Private Banking won Best Global Private Bank for Digital Customer Experience and Best Global Private Bank for Portfolio Management Technology by Professional Wealth Management, a Financial Times publication, at their 2020 Wealth Tech Awards 2020.

Risk of customer disappointment performance indicators (theme 1)

	2020	2019	2018
Commercial banking customer overall satisfaction rating (out of 10)	**6.8**	6.8	NA
Share of commercial banking customer complaints processed within 5 business days	**43%**	45%	NA

Financing the low carbon economy to manage the risk relating to the non-alignment of emissions financed with a net zero pathway (theme 2)

More than ever, we need to support the transition of our customers to a low-carbon economy, including the innovation and low-carbon solutions required to ensure economic resilience. For HSBC, these are the key elements of sustainable growth that it can influence.

The Bank's network covers the world's largest and fastest-growing trade corridors and economic zones. This enables the Group to play a strategic role in promoting sustainable growth at the heart of the global economy.

HSBC's commitment to sustainable finance

HSBC supports the Paris Agreement and, in October 2020, announced new commitments to tackling the environmental and climate crisis:

- Reducing its emissions financed – the emissions produced by its financing portfolio – with a view to be aligned with a carbon neutral trajectory by 2050;
- Being carbon neutral for operations, including the supply chain, by 2030;
- Supporting customers in the transition to a sustainable model by providing between USD 750 billion and USD 1,000 billion in financing and investment over the next ten years;
- Becoming one of the major managers of natural capital globally;
- Contributing to the transformation of sustainable infrastructure into a global asset class and generating a bankable project pipeline.

For more information on progress towards these commitments please see https://www.hsbc.com/our-approach/our-climate-strategy.

Managing the environmental risks related to banking activity

The HSBC Group has undertaken to follow the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') since they were published in 2017, and reports its progress in its annual Strategy Report available on the Group website. Prior to this, in 2003 it became a signatory to the Equator Principles, which form a voluntary framework to be used by financial institutions in assessing and managing the social and environmental impact of infrastructure projects. This is revised regularly; the latest updates were published in October 2020. HSBC has voluntarily extended the Equator Principles to company loans, export financing and other project financing tools.

In addition, for over 15 years, HSBC has developed a risk management framework based on an approach to working with business customers that uses formal processes and trained and responsible employees to understand and manage environmental and social issues in relation to sensitive sectors and themes.

As a result, an assessment of the environmental and social impact of financing granted to the bank's customers has been embedded in the Group's risk management procedures. To ensure global consistency in analysis and approval procedures, a system of environmental and social risk assessment has been established to record and monitor client companies operating in sensitive sectors throughout the world, and to obtain more precise information on the Group's exposure in the management of sustainability risk.

The potential environmental and social impacts caused by customers conducting business in any of the sectors concerned by HSBC's policies are assessed by account managers from Global Banking and Markets and Commercial Banking and by HSBC's designated Sustainability Risk Managers from the Credit Department, whether for risky project finance or lending transactions. Since 2020, regional Reputational Risk Managers have also had responsibility for supervising management of sustainable development risks.

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

To improve its risk management, the HSBC Group regularly reviews its internal sector policies. In April 2020, HSBC strengthened its Energy Sector policy by undertaking not to consider financing any new coal-fired power plants anywhere in the world. In fact, the Group has not provided any project finance for any new coal-fired power plants since the announcement of its energy policy in 2018.

The HSBC Group's business dealings in these sensitive sectors always involve dialogue with the client, to help it comply with international standards as well as our policies. However, as a last resort, the Group reserves the right to cease all relations with a client that does not meet its requirements or which has not made significant progress.

These proactive policies, which form the basis of a restrictive and transparent approach to financing carbon-intensive or potentially environmentally damaging sectors, have enabled the HSBC Group and HSBC Continental Europe more specifically to avoid financing new thermal coal mines and coal-fired thermal power stations since the energy sector policy was revised in mid-2018. In 2020, coal's share of the energy mix financed by HSBC Continental Europe represented less than 0.16 per cent of its lending to business; that proportion resulted from the energy mix of certain customers, not from our direct financing of coal-related activities, in line with our internal policy.

For more details, visit the Group website: http://www.hsbc.com/our-approach/risk-and responsibility/sustainability-risk.

Assessment of HSBC Continental Europe's exposure to physical and transition risks related to climate change

Under the provisions of Article 173 of act no. 2015-992 of 17 August 2015 on energy transition and green growth, HSBC Continental Europe has assessed its risks relating to climate change with reference to regulatory requirements.

HSBC Continental Europe aims to refine its understanding of its exposure to transition risks in order to maintain the alignment of its financing in the energy sector with the projections of the 2°C scenario of the IEA for Europe.

HSBC Continental Europe has worked with Carbone 4, a consultancy advising on energy transition and climate adaptation, to carry out top-down analyses of its loan book's exposure to climate risks. We started with the most exposed sectors: Energy & Transport in 2016 and Real Estate & Industry in 2017, representing one-third of the loan book. In 2018, Commercial Banking analysed its entire loan book and confirmed that real estate and transport industries, along with producers of equipment for carbon-intensive industries, represent challenges for HSBC in France. In 2019, HSBC Continental Europe again assessed its loan book in the energy sector to see how it had changed since 2016. The study showed that the proportion of the loan book relating to fossil fuels (oil and gas) had fallen and that the proportion relating to electricity had risen, better aligning the energy mix financed by HSBC Continental Europe with the requirements arising from the

IEA's 2°C Scenario for Europe. The emission factor of the electricity mix financed by HSBC Continental Europe was 142g CO_2/kWh in 2018, less than the 335g CO_2/kWh proposed by the IEA's 2°C Scenario for Europe for the same year. In October 2020, HSBC announced that it will use the PACTA (Paris Agreement Capital Transition Assessment) methodology to calculate the alignment of its financing portfolios with a trajectory compatible with the Paris Agreement. HSBC Continental Europe will align with this methodology, in coordination with Group.

This assessment of the HSBC Continental Europe portfolio is being complemented by a company-by-company approach, designed by the Group for ten priority sectors (electricity and utilities; oil, gas and coal; energy; construction and materials; chemicals; automotive; mines and metals; real estate; transport; manufacturing; and agriculture). Its purpose is to evaluate the level of each customer's sensitivity to the challenges of climate change. In 2020, more than 260 account managers, accounting for 97 per cent of the target, completed the training module on transition risks. It is part of the HSBC Group's strategy to engage with customers to understand how a transition to a lower-carbon economy could affect their business and support them with that transition.

More information on the HSBC Group's transition risk assessment can be found in the 2020 Group Strategy Report available on hsbc.com.

HSBC Continental Europe's contribution to HSBC's sustainable finance 2025 commitments

In 2017, the HSBC Group undertook to provide US$ 100 billion in green financing and investment by 2025.

HSBC Continental Europe's contribution to the Group's US$ 100 billion target amounted to US$ 19.9 billion at 31 December 2020, a large part of which related to green bond issues.

In 2020, the HSBC Group won the Euromoney Prize for the world's best bank for sustainable finance for the second year running. HSBC also won this award for Western Europe for the first time.

Contribution from Global Banking and Markets

Green bonds

HSBC Continental Europe is heavily involved in developing the green, socially responsible and sustainability bond market. Across all sectors, HSBC Continental Europe managed or co-managed a total of 25 green, socially responsible and sustainability bond issues in 2020, for a total volume of EUR 39 billion.

In 2020, in the Supranational and Agency segment in France, HSBC Continental Europe managed 12 deals:

- for the European Commission and the European Union's SURE Programme, HSBC co-managed an issue of EUR 8.5 billion 15-year Social Bonds. The SURE programme is an EU programme of temporary support to mitigate unemployment risks resulting from the negative economic and social effects of the Covid-19 pandemic;
- for the Council of Europe, HSBC co-managed a EUR 1 billion issue of 7-year Covid-19 social bond;
- for *Agence Française de Développement ('AFD')*, HSBC co-managed a new EUR 1 billion issue of 5-year Climate Bonds;
- for *Groupe Caisse des Dépôts et Consignations ('CDC')*, HSBC co-managed a new benchmark issue under the issuer's new Sustainability Bonds programme for a total of EUR 500 million over 5 years;
- for *Caisse d'Amortissement de la Dette Sociale ('CADES')*, HSBC co-managed a USD 4 billion issue of 5-year Social Bonds and a EUR 5 billion issue of 5-year Social Bonds;
- for SNCF SA, HSBC managed a first issue of 100-year Green Bonds for a total of EUR 50 million, and then co-managed SNCF SA's first public syndicated Green Bond issue – EUR 1.25 billion for 10 years;
- for *Société du Grand Paris*, HSBC co-managed a supplementary issue of the issuer's Green Bonds, maturing on 18/02/2070 (50 years) for EUR 750 million, taking the total volume of the issue to EUR 1.75 billion. HSBC also co-managed a new benchmark 10-year issue for SGP for EUR 3 billion;
- for Unedic, HSBC co-managed three new benchmark Social Bond issues: EUR 4 billion 9 years; EUR 2 billion 15 years, and a supplementary EUR 1.5 billion in the 15-year issue.

For local authorities in France and Belgium, HSBC Continental Europe managed five issues:

- for the Ile-de-France region, HSBC co-managed a new responsible green double-tranche 10-year and 20-year issue for a total of EUR 800 million;
- for the Wallonia region, HSBC co-managed a new double-tranche 10-year and 14-year sustainability issue for EUR 700 million and a first Social Bonds 20-year issue for EUR 1 billion.

For Corporate issuers in France, HSBC Continental Europe managed eight issues:

- for Engie, HSBC co-managed a triple-tranche 5, 8 and 12-year Green Bond for EUR 2.5 billion with a subordinated EUR 850 million PerpNC8 Green Bond;
- for Chanel, HSBC co-managed a double-tranche 5-year and 10-year Sustainability Linked Bond for EUR 600 million;
- for Orange, HSBC co-managed a 9-year Sustainability Linked Bond issue for EUR 500 million.
- for Neoen, HSBC co-managed a 5-year convertible Green Bond issue for EUR 170 million.

Additional information on green bonds is available at https://www.hsbc.com/investors/fixed-income-investors/green- and-sustainability-bonds

Meanwhile, despite the fall in yields reducing the potential investment universe, HSBC Assurances Vie (France) continued to invest more in green bonds within its bond portfolio by subscribing EUR 104 million to new issues in 2020 (including EUR 59 million in *Société du Grand Paris*) or around 9 per cent of its total investment in fixed-rate bonds over the year.

Green financing and financing on ESG criteria

HSBC Continental Europe has contributed to the development of this new field in transition financing and was involved in several syndicated deals completed in 2020: loans of EUR 2.5 billion to Michelin, EUR 750 million to Edenred.

ESG research for asset management customers

The Equity Research and Sales team at HSBC Continental Europe places considerable emphasis on SRI. In 2020, it organised several ESG conference calls, at which it invited a company to present its sustainability strategy to the bank's SRI investment customers. These meetings were attended by sustainability directors from several major listed companies. There were also meetings in which financial analysts from HSBC Continental Europe presented particular ESG themes ('US elections and ESG', 'Energy transition', 'The European Green New Deal')

Commercial Banking contribution

The whole Commercial Banking team has been mobilised in order to direct financing and lending to companies that are on a pathway compatible with the Paris Agreement targets.

A Head of Sustainable Finance has been appointed for Commercial Banking, responsible, alongside a dedicated team, for:

- developing sustainable solutions and financing for Commercial Banking customers of HSBC in France, by ensuring good understanding of ESG issues by all stakeholders within the bank;
- working with a dedicated origination team to structure sustainable finance transactions with Commercial Banking customers to direct the bank's portfolio on a pathway compatible with the Paris Agreement targets.

Commercial Banking has thus put in place a number of strategic initiatives to support managers, the risk function and customers themselves, as presented below.

Development of sustainable financing products

Commercial Banking has put in place:

- a financing allocation of EUR 500 million, backed by a European Investment Bank resource, including at least EUR 100 million dedicated to financing green projects and assets for SMEs and mid-sized companies. Through this allocation, customers benefit from a 12.5 basis point reduction in their financing rate.
- green lending, where funds are released only to green projects and assets, in accordance with the Green Loan Principles produced by the Loan Market Association ('LMA');
- impact lending, that is to say loans whose margin is linked to environmental, social or governance ('ESG') criteria, in order to support mid-sized customers on their sustainability pathway, in accordance with the Sustainability-Linked Loan Principles produced by the LMA. HSBC customers are supported by a dedicated team in the provision of this type of loan with Ethifinance.

Implementation of a sustainable multi-partnership

This system has been developed with experts in energy transition, and reflects the need for vigilance and ESG strategy in order to support Commercial Banking customers on their sustainability pathway:

- Energy Economy offers small and medium-sized businesses, via the Up to Green platform, a suite of four complementary energy efficiency services, with support ranging from the identification of priority works to their financing, via assistance in finding sources of support such as Energy Savings Certificates.
- EcoVadis offers companies an assessment of their ESG performance, rating of improvement processes, peer comparison and communication on good practice to customers and commercial partners. EcoVadis also offers larger companies support in laws relating to oversight of the analysis of their supply chains.
- EcoAct supports mid-sized and large companies in their low-carbon strategies, from an initial diagnosis through to the implementation of a decarbonisation action plan, including the definition of an emissions reduction pathway compatible with the estimated carbon budget from GIEC with a view to limiting global warming to between 1.5°C and 2°C, life cycle analysis and carbon offsetting.
- EY, a longstanding partner of HSBC Continental Europe in the *Prix de l'Entrepreneur*, offers large companies a range of services related to their ESG challenges. EY supports them in regulatory compliance and the definition, implementation and value proposition of their strategies.
- EthiFinance, a European ratings agency specialising in extra-financial ratings for mid-sized companies, has expanded HSBC's sustainable finance offering thanks to its expertise in impact lending.

This multi-partnership has the particular aim of supporting small and medium-sized companies, which do not always have the human and financial resources to manage their ESG risks. Partners provide, scientific, technical, methodological and regulatory support and through this one-stop approach create unique conditions for providing tailored support to HSBC customers.

https://www.business.hsbc.fr/fr-fr/articles/finance-durable

Sustainable Governance

In 2020, Commercial Banking introduced a Sustainable Finance Forum, a body that aims to validate sustainable financing transactions from an ESG point of view and to tackle underlying risks such as the risk of 'greenwashing' or 'ESG-washing', reputational risk, corruption risk and legal risks.

Growth of responsible investment within Private bank and Wealth Management

The integration of Environmental, Social and Governance criteria has been a prerequisite that the bank has incorporated in its management processes since 2007 as a complement to financial criteria. Today, 100 per cent of our asset management products factor in ESG criteria when investment decisions are made.

In a continuation of the process it has adopted since launching its first SRI equity fund in 2001, HSBC Continental Europe offers a broad range of Socially Responsible Investment ('SRI') products within a French registered SICAV, the HSBC Responsible Investment Fund ('HSBC RIF')*. This covers seven SRI-labelled funds across all asset classes and also a new range of profiled funds. These solutions – HSBC RIF- SRI Moderate, HSBC RIF-SRI Balanced and HSBC RIF-SRI Dynamic by increasing level of risk - are mainly invested directly in securities in the eurozone. This diversified SRI range combines an SRI investment process with multi-asset investment expertise; the SRI approach is overseen by managers and analysts who use proprietary tools and a comprehensive ESG research platform ensuring the consistency of investment decisions. This full product range allows customers to invest in the theme of sustainable finance according to their risk appetite.

The fund also features an SRI-energy transition subfund called HSBC RIF-Europe Equity Green Transition, which has three recognised European labels: the French government's SRI label, the Greenfin-France Finance Verte label, and the Belgian 'towards sustainability' label created by Febelfin and awarded by the Belgian finance industry federation in November 2019.

Since 2017, HSBC Continental has also offered 'lower-carbon' funds aiming to achieve both capital growth and income over the long term. The fund invests at least 90 per cent of its assets in the equity of companies of all sizes, and seeks to have a smaller carbon footprint than its benchmark index.

The resilience of the SRI range, combined with the collective commitment of the bank and investors, have produced total new money of more than EUR 262 million since the beginning of the year (to 31 October 2020) at a time when there was a net outflow from non-SRI UCITS. Money invested in the SRI range currently represents around 19 per cent of assets under management by the bank's teams.

Strengthened by these factors, HSBC is seeking to position itself as a driver of growth and a key player in this source of support for sustainable development. This is why it is continuing to develop sustainable products and also to educate its network of advisers through regular training and communication on subjects relating to sustainable, socially responsible finance, in order to build awareness amongst HSBC staff who are the main sources of information for customers.

Growth of sustainable finance within Private Banking

HSBC Private Banking in France has established a range of responsible investments for both discretionary and advisory management. This range has been expanded by the launch of the new HSBC Sustainable ETF Range and a selection of external funds. More specific investment themes are also covered, from the contributions of forestry assets and philanthropy to the diversification of assets, via informational webinars.

Since January 2020, nearly 10 per cent of orders under advisory mandates have been for SRI funds.

Asset management contribution to managing climate risk and to responsible investment

Managing climate risk in asset management

With HSBC having committed to being carbon neutral by 2050, asset management played an ever more active role in 2020, developing solutions and methodologies designed to attenuate climate risk. It appears clear that the companies best prepared for climate change, those engaged in a credible process of transformation and perceived as such by the market, will be those best placed to build value. HSBC Global Asset Management's fiduciary duty to its clients logically requires it to evaluate the resilience of its investments to climate risk and to contribute actively to the transition to a low carbon economy.

HSBC's offering is innovative, diversified and ambitious in helping address climate change

In 2020, working in cooperation with IFC, a member of the World Bank Group, HSBC Global Asset Management launched REGIO, a fund of green bonds issued by non-financial companies in emerging economies, raising US$ 474 million to support climate-friendly investment in developing countries. In June 2020, it also launched a new generation of sustainable equity ETFs seeking triple optimisation: maximisation of ESG ratings, reduction of carbon intensity and a reduction in exposure to reserves of fossil fuels.

Ambition Climat

At the end of 2019, twelve institutional investors, coordinated by *Caisse des Dépôts* and with the support of *Fédération Française de l'Assurance*, launched the *'Ambition Climat'* call for tenders, to identify equity and bond strategies contributing to a steady reduction in carbon emissions and the attenuation of global warming by adopting a vigorous and dynamic alignment with the 2°C scenario laid out in the Paris Agreement on climate change. In June 2020 [1], HSBC Global Asset Management (France) was chosen to manage the bond fund thanks to its novel approach built around the carbon budget of an individual European citizen, with a focus on the energy transition sectors judged to have the greatest impact. This 'climate target' is measured using a proprietary climate score, based in part on the carbon savings indicator developed by Carbon4 Finance.

(1) www.afg.asso.fr/wp-content/uploads/2020/06/cp-fonds-objectifs-climat-version-propre-18062020.pdf

Carbon emissions avoided

In October 2020 [2], HSBC Global Asset Management announced a cooperation with Carbon4 Finance, to help refine its analysis of the companies in which it invests or wishes to invest on the basis of their climate pathway. Although measuring the carbon footprint of companies has become a widely used indicator, measuring the real impact of companies' energy transition strategies over the medium to long term is a harder proposition. The 'greenhouse gas emissions avoided' measurement developed by Carbon4 Finance to assess companies' climate pathways could, over time, come to play an important role in the global process of ESG integration, as it covers all regions and all asset classes.

(2) www.carbon4finance.com/communique-hsbc/

Climate change commitments

For HSBC Global Asset Management, engagement with the companies in which it invests, to better understand and support their practices in terms of climate reporting, the management of risks and opportunities related to climate change and our policy in this area, is an important step in the process. Asset Management also adopts direct, collaborative engagement initiatives (such as ClimateAction100+) and uses its voting decisions to highlight any potential problems.

The climate risk demands better communication

HSBC Global Asset Management has since 2014 supported the 'Non-Disclosure Campaign' initiated by CDP [3]. This targets companies in high-emissions sectors, which still do not contribute to the CDP database, despite its widespread use by investors. HSBC Global Asset Management is convinced that measurement of greenhouse gas emissions allows companies to improve management and, ultimately, reduce emissions. Over the years, the number of companies reporting to CDP has increased steadily. This is why HSBC Global Asset Management has chosen to contact a greater number of companies every year. In 2020, we wrote to 342 companies compared to 155 in 2019. Despite the impact of the Covid-19 pandemic in 2020, we have seen an increase in the rate of positive responses from companies on their GHG emissions, in particular.

HSBC Global Asset Management was one of the first institutions to sign the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures, and started to publish the carbon footprint of its equity portfolios in 2015 after signing the Montreal Carbon Pledge.In 2019, as well as covering equity and bond portfolios, carbon footprint analyses also covered diversified and real-estate portfolios managed in five major asset management centres (Paris, London, Hong Kong, New York and Düsseldorf). Asset Management takes into account assets invested in emerging and developed markets, whether they are managed actively or passively. To analyse portfolios' carbon intensity, HSBC Global Asset Management used two recognised suppliers of carbon data in 2019: S&P Trucost and MSCI.

Thus, compared to the previous year, over a larger perimeter [4], the weighted average carbon intensity (scopes 1 and 2) expressed in tonnes of CO_2 per million dollars in turnover was thus established, at the end of 2018, on the S&P Trucost database:

- 244 teCO_2/USD million revenue for equity portfolios (295 end 2018);
- 264 teCO_2/USD million revenue for bond portfolios (228 end 2018).[5]

For more information about HSBC Global Asset Management's climate approach, visit www.assetmanagement.hsbc.fr

(3) The Carbon Disclosure Project is an organisation that publishes the environmental impact of the largest companies.

(4) 46.5 per cent of HSBC Global Asset Management's total asset under management ie USD 517 billion as of 31 December 2019

(5) The carbon intensity of bond portfolios is difficult to compare with those of previous years because sovereigns are treated separately. In previous years, government bonds were consolidated with corporate bonds which led to a reduction in the total carbon intensity of the asset class.

Systematic evaluation of environmental, social and governance issues and climate risk in asset management

The HSBC Group is more convinced than ever of the need to incorporate environmental, social and governance ('ESG') factors in its investment decisions to protect the value created for its clients and support the transition to a sustainable economy and society.

As one of the first signatories to the Principles for Responsible Investment ('PRI') in 2006, HSBC Global Asset Management committed at that time to integrating ESG factors in its investment decisions. Alongside traditional criteria such as profitability, credit quality, valuation and financial solidity, ESG analysis gives a true 360° view of the financial instruments in which to invest. HSBC Global Asset Management does not operate an overarching hierarchy between environmental, social and governance factors: they contribute equally to informing its investment decisions with a view to obtaining positive financial results for its customers and, more precisely, the best returns adjusted for long-term risk. ESG integration consists of integrating environmental, social and governance factors in investment analysis. Understanding the risks and opportunities facing issuers strengthens a 'citizen' approach by helping understand the most urgent challenges faced by today's economies. This investment approach, the products offered and the role adopted to make the financial system more sustainable all contribute to this approach.

ESG integration process

HSBC Global Asset Management is certain that ESG issues can have major repercussions on companies' performance. Challenges such as climate change, water scarcity and availability, deforestation, health and safety and the remuneration of directors create risks and opportunities for companies that financial markets may not have valued accurately. This is why ESG criteria are integrated into the analysis of financial securities, alongside financial fundamentals. This analysis varies from sector to sector in order to take account of the specific features and industrial reality of each. The associated risks and opportunities thus identified help produce better informed investment decisions. At 31 December 2020, more than 16,000 issuers around the world were covered by an ESG analysis accessible to all analysts and fund managers at HSBC.

Principles for Responsible Investment ('PRI')

The consistency and robustness of HSBC Global Asset Management's approach to integrating ESG factors has once again been underlined by the latest annual PRI assessment, which ranks and rates the signatories on the quality of the implementation of the six principles for responsible investment In 2020, HSBC Global Asset Management once again received an A+ score in the main areas assessed – including strategic governance, equity management and bond management – putting it in the top decile of a group of more than 500 asset managers in each category, including for ABS – Asset Backed Securities, an asset class that is rarely assessed from an ESG standpoint. This latest annual PRI evaluation, which rates and ranks signatories by the quality of their implementation of the six principles for responsible investment, underscores the quality of our approach to ESG criteria.

Focus on ESG research for bond assets

In 2020, quantitative research by HSBC Global Asset Management confirmed that the integration of ESG factors had a positive impact on bond management strategies during the Covid-19 crisis. Nevertheless, because analysis carried out under unprecedented conditions should not be the sole driver of long-term fixed income allocations, these results were put in context by a detailed review over the longer period from 2007 to June 2020, the main results of which were published in a research paper, 'The impact of ESG integration in fixed income portfolios' performance' [(5)].

Within the Global Credit Research team, the appointment of a Head of Fixed Income ESG and Green Research, in August 2020, confirmed the desire to offer sustainable investments to increase the resilience of client portfolios. The purpose of this new role is to provide ESG expertise to all fixed income management teams, along with themed ESG research and specific reports relating to fixed income investment on a global scale.

(5) www.assetmanagement.hsbc.fr/-/media/files/attachments/common/news-and-articles/impact-esg-integration-fixed-income-portfolios-performance.pdf

Engagement in protecting biodiversity

Building on collective undertakings to tackle climate change (Climate Action 100+, IIGC, One Planet Asset Managers, etc.), HSBC Global Asset Management joined the Finance for Biodiversity Pledge initiative in September 2020. This seeks to protect and restore biodiversity through financing and investment. We have undertaken to bring our expertise and global reach to bear in a collegiate approach towards identifying more sustainable investments in agriculture, forestry, land use and other nature-related areas. Lastly, the Pollination partnership helps cement HSBC's ambition to become the biggest manager of 'natural capital' funds worldwide. The HSBC Pollination Climate Asset Management joint venture intends to establish and market funds investing in a diverse range of activities that preserve, protect and enhance nature over the long term and address climate change.

Measuring biodiversity

In addition, HSBC Global Asset Management (France) has, since September 2020, been part of the 'B4B+' working group set up by CDC Biodiversité. In order to create a method suited to the needs and constraints of financial companies and institutions, the B4B+ Club intends to jointly construct and test a Global Biodiversity Score in close cooperation with its members. The aim of the B4B+ Club is to act as an incubator for this indicator, the Global Biodiversity Score ('GBS™'), and the associated biodiversity footprint method.

Voting and shareholder engagement

Engagement is an integral part of the fundamental research process and long-term investment approach at HSBC Global Asset Management. Equity and credit analysts from the active management teams, together with portfolio managers, are in direct contact with issuers throughout the investment process, from before to after the investment period, and follow up ESG issues as part of their research and their discussions. Engagement initiatives are determined as a function of the size of holdings, the issues identified and overall exposure, expectations in terms of change and the ability to achieve the expected results. Thanks to this approach, at each stage of the investment cycle the main ESG issues are integrated in analysis and the decision-making process, in order to reduce risk and optimise performance.

As a first step, HSBC Global Asset Management might notify the Chairman and non-executives of its concerns or vote in such a way as to express its concerns over a company's lack of action. If these measures do not produce results, we can join forces with other investors or bring the problem to the notice of a broader audience through statements, letters to the press or participation in shareholder meetings, with the submission of shareholder resolutions.

Over the past three years, this shareholder engagement has increased significantly in the wake of the integration and improved understanding of the effect that ESG issues can have on the performance of companies. In 2020, HSBC Global Asset Management addressed ESG themes with more than 2,300 issuers in 78 markets. Its interactions with companies increased by +11 per cent during the lockdown period, from 1,504 in the second quarter of 2019 to 1,682 in the second quarter of 2020 – reflecting the intensification of the exchanges of companies with their shareholders during this period.

Socially Responsible Investment ('SRI') range

HSBC Global Asset Management has increased its range of sustainable finance products, with a full range of SRI solutions called HSBC Responsible Investment Fund ('HSBC RIF')*; this French registered SICAV has seven SRI-labelled sub-funds covering all asset classes and including a new diversified management offering. This unprecedented product allows customers to invest in the theme of sustainable finance according to their risk appetite, with five risk profiles from moderate to more aggressive.

Despite an unprecedented context in 2020, we once again noted strong net inflows (+391 million EUR in 2020) – in line with 2019 inflows (+399 million EUR in 2019) – on the HSBC Responsible Investment funds range including socially responsible FCPEs as well as our low-carbon funds offering and our climate fund [8].

(6) HSBC Responsible Investment Funds (HSBC RIF) is a French mutual fund that acts as an umbrella for sustainable finance savings solutions accredited by the French government. This fund, which has had seven sub-funds since 30 September 2019, has more than EUR 2 billion of assets under management as of End December 2020.

(7) Annual net inflows received by HSBC Global Asset Management (France) into open-end Sustainable Finance funds distributed in the markets listed below if those funds are registered there, or via socially responsible employee savings funds. The markets covered by HSBC Global Asset Management (France) are: France, Benelux, Spain, Italy, Nordic countries, Greece and Malta.

(8) Data as of December 31, 2020.

Growing importance of environmental, social and governance issues and climate risk in insurance

In 2020, HSBC Assurances Vie (France) maintained its strong focus on environmental quality as part of its real-estate policy. That involves selecting properties that meet the highest environmental standards and carrying out works to enhance their environmental quality as confirmed by independent accreditation (HQE Excellent, *Effinergie* Renovation and BREEAM labels), such as the 12M building in Levallois-Perret, which was fully renovated in 2020.

Building employees' expertise in sustainable finance issues

In order to help employees develop the expertise they need to meet sustainable finance challenges, the Sustainability Department at Group and HSBC Continental Europe level and the sustainability champions in each business line organised more than 40 awareness-raising and training events in 2020, including:

- themed training events for business lines and the Risk Management function, dealing with various subjects such as: biodiversity, the other sustainable finance emergency; new European regulations relating to sustainable finance; metal recycling; additive manufacturing; European regulation; biodiversity; and the EnRoads climate simulator;
- other training sessions dedicated to financing energy efficiency under the Inveest programme in partnership with Ademe;
- a two-and-a-half-day training programme for directors run in conjunction with Earthwatch, an NGO, combining theoretical training and presentations from internal and external experts. Earthwatch was awarded the gold medal for this programme at the Corporate Engagement Awards 2020;
- HSBC also called on the expertise of its partners Ethifinance, EcoAct, Economie d'Energie and Ecovadis to organise specialised training for the sales function;
- a large number of webinars was also organised during Sustainable Finance Month in June, a global initiative developed by the HSBC Group; and Sustainable Finance Week in October, which builds on existing initiatives;
- Lastly, 2020 saw the launch of the Sustainable Lab, a joint resource for Commercial Banking and Global Banking and Markets, which aims to support the bank's transformation in sustainable finance and sustainable development for customers through innovative solutions and an agile approach.

All in all, more than 1,600 participations were registered in the nearly 40 training sessions organised in 2020. In addition, in 2020, close to 1,700 participations were registered in the sustainable finance modules accessible via HSBC University.

Factoring sustainable finance criteria into remuneration

The HSBC Group's management committee is responsible for implementing the sustainability strategy, which results in specific long-term targets for the Group's executive directors and chief executives. In 2017, executive directors' long-term targets included a total target of USD 30-34 billion for financing and investing in clean energy and low-carbon technologies and projects that contribute to the attainment of the Paris Agreement and the United Nations' Sustainable Development Goals, over a three-year period ending on 31 December 2020.

These targets are adopted by the Group's subsidiaries. For HSBC Continental Europe, targets such as the development of sustainable finance, the integration of the climate risk into risk management, the development of action both internally and externally, the reduction in CO_2 emissions per employee across the scope of operations are criteria for variable remuneration and are included in the annual scorecard for Commercial Banking, Retail Banking and Wealth Management and the Operations department.

Performance indicators for risks relating to the non-alignment of emissions financed with a net zero pathway (theme 2)

	2020	2019	2018
Contribution to Group's sustainable finance 2025 objective (USDm)	**13,895**	6,848[1]	5,285[1]
Exposure to coal	**0.16%**	NA	NA
Evolution of net new money in responsible investment funds year on year	**(2)%**	164%	190%

1 *Indicator recalculated on HSBC Continental Europe scope.*

Controlling the bank's direct carbon footprint to manage the risk relating to the non-alignment of the bank's operational carbon footprint with a net zero pathway (theme 3)

As part of the Reduce strategy to reduce annual CO_2 emissions per employee by one tonne between 2012 and 2020, HSBC is reducing its energy consumption and increasing the proportion of energy coming from renewable sources to 100 per cent by 2030.

In October 2020, the Group announced its new commitment to becoming carbon neutral for its operations, including its supply chain, by 2030.

HSBC Group publishes its annual carbon emission results in its annual report, available on its website (http://www.hsbc.com/our-approach/measuring-our-impact).

To help fulfil HSBC's strategy, HSBC Continental Europe focuses its attention on four objectives:

- improving energy efficiency;
- reducing CO_2 emissions, notably those related to business travel;
- reducing paper consumption;
- reducing production of non-recycled waste

Reducing CO_2 emissions

In 2020, the main areas of action involved the on-going policy of building renovation, actively seeking to reduce energy consumed in the management of HSBC sites, and promoting remote working and reducing business travel.

Carrying on from the HQE certification it obtained for Coeur Défense (46,000m^2 of office space) in 2011 and the *'NFHQE™ Bâtiments Tertiaires en Exploitation'* energy efficiency certification, under which it achieved an 'Excellent' rating in 2018, in 2020, HSBC Continental Europe maintained the 'Exceptional' rating achieved in 2019.

On December 1, 2020, HSBC moved its headquarters to 38 avenue Kleber, Paris (16). This 16,350m^2 building has been fully modernised and was chosen for its eco-responsible qualities, having received BREEAM and BBC Effinergie certification. In addition, its builder received an Exceptional HQE rating.

Transport

The pandemic had a significant impact on business travel in 2020: total kilometers travelled dropped by 60 per cent compared to 2019. Even though 2019 had already seen a sharp reduction in international travel, due to a suspension of trips to Hong Kong initially, due to political developments, and then to China, when the emergence of the Covid-19 virus was first reported, since March 2020 international travel has come to a virtual halt in France and around the world. Although domestic travel was less tightly restricted, it was complicated in the early part of 2020 by a strike on the SNCF rail network and major social unrest. As a result, CO_2 emissions were down by 59 per cent.

In 2020, HSBC also changed its relationship with its main taxi booking service (G7), with a default preference for 'green' badged taxis for all its subscriptions (apart from Club Affaires).

In all, CO2 emissions from transport were 0.17 tonnes eq. CO_2 per member of staff per year, down 60 per cent on 2019.

In accordance with French decree no. 2011-829 of 11 July 2011 on greenhouse gas emission footprints and the local climate energy plan, HSBC Continental Europe has compiled and published its carbon report for 2019, showing a slight increase in tonnes of CO_2 equivalent produced. Information on the company's 2020 greenhouse gas emission footprint will be available on http:// www. about.hsbc.fr/fr-fr/hsbc-in-france/ community from January 2021.

Mobility plan

The French energy transition act (act no. 2015-992 of 17 August 2015) requires companies with more than 100 employees on a single site located in an 'urban travel plan' area to prepare a mobility plan. In 2018, HSBC Continental Europe carried out an initial analysis for the La Défense (Courbevoie) site, which is our largest site in terms of the number of people working there, examining site accessibility and employee practice and expectations regarding their commute to work. The study led to the signature, in early 2020, of the 'Charter of reciprocal undertakings to reduce rush hour travel' promoted by Ile-de-France Mobilités and Paris La Défense, the aim of which is to improve travel conditions on public transport for staff travelling at peak times. HSBC Continental Europe, as part of its effort to increase quality of life at work, has adopted a proactive remote working policy, allowing an increasing proportion of employees to work in this way. In 2020, in the face of the coronavirus health crisis, remote working was extended to all staff. This process saw the creation of 3,200 new access tokens within just a few days, after the first lockdown was announced in March.

Circular economy

HSBC Continental Europe continues to seek to reduce waste production in general and a reduction in non-recycled waste in particular. Waste production fell from 849 tonnes in 2019 to 591 tonnes in 2020, a fall of more than 30 per cent which is explained by a methodological alignment with the Group which excludes site waste from its scope and above all a drop in activity in buildings linked to lockdown. It represented on average 75 kg per employee per year in 2020 versus 96 kg in 2019.

Electronic waste

At the start of 2020, a project to replace office telephones with more up-to-date models was rapidly changed as a consequence of the health crisis and the widespread uptake of remote working. With the vast majority of staff working remotely and using new on-line communication tools (notably Jabber and Zoom), decision was taken not to replace fixed-line telephones. At year end 2020, HSBC Continental Europe decommissioned and recycled more than 5,800 telephones notably at the time of moving headquarters from *avenue des Champs Élysées*. This represents a total of 9.7 tonnes of products which will be collected and recycled by Cisco.

Regarding mobile phones, in February 2020, 478 mobiles were collected from HSBC Continental Europe staff and passed to Recommerce Solutions for recycling or reconditioning, thus contributing to sustainable development and solidarity employment in France:

- 2,619kg of CO_2 saved thanks to the re-use of products;
- 60,677.3MJ of primary electricity use avoided thanks to product recycling;
- 60 hours of reintegration employment created for product processing.

Paper

Having already been reduced in prior years, the reduction in paper use gathered pace significantly in 2020, with the widespread use of remote working favouring increased adoption of digital documents. The result was a fall of more than 33 per cent between 2019 and 2020.

Food issues

Despite their importance on an environmental and social level, food waste, the fight against food poverty, equitable, sustainable and responsible food and the respect for animal welfare are not material matters within the framework of the bank's business.

For more detailed information on HSBC Continental Europe's undertakings under its environmental policy visit hsbc.fr or hsbc.com

Awareness-raising measures

Throughout 2020, the Sustainability Department organised awareness-building campaigns on the environmental footprint, and more particularly the digital footprint and good practice to adopt in the light of increased remote working and use of digital solutions. Conference calls were organised during Sustainable Development weeks in September, and Waste Reduction weeks in November, and there were also regular articles in the Department's monthly Newsletter.

On-line training modules were also offered by HSBC University.

Performance indicator for risk relating to the non-alignment of the bank's operational carbon footprint with a net zero pathway (theme 3)

	2020	2019	2018
CO_2 emissions(2) (thousands of tonnes equiv CO_2) per employee(3)	**0.48**	0.6	0.66
Evolution year on year	**(21)%**	(10)%	3%

Managing the economic and social risks created by growing vulnerable populations by strengthening financial education among our customers, people and partners as a source of financial prosperity and a means of tackling exclusion (theme 4)

Financial education is at the heart of individual and social progress. Improving the understanding of money management and economic relationships helps people progress economically, professionally and socially.

With this in mind, HSBC Continental Europe supports initiatives to enable its clients, its employees and members of the communities in which the bank operates to build awareness and develop skills to give people confidence in managing their budgets and building their savings. HSBC Continental Europe has set itself the objective of supporting 60,000 people on the subject of financial education by 2020.

In 2020, HSBC Continental Europe offered its customers a series of online conferences to address the questions they might have about building their savings, preparing for retirement, protecting their wealth and how to diversify their investments.

In addition, to give us a better understanding of how, through our savings and socially responsible investments, we all can support companies that are helping to create a sustainable economy and preserve the planet, HSBC Continental Europe has since late 2019 been producing a podcast focusing on socially responsible investing entitled *'Les Voies de l'économie'*. Three episodes were produced in 2020 covering themed investment, carbon and waste management; in all, the four episodes have been listened to 18,000 times.

In 2020 HSBC Continental Europe continued its campaign of communication with customers on the topic of financial fragility, notably through the HSBC.fr website. In particular, we send personalised letters to customers identified as fragile, informing them of the 'HSBC Service Initial' offering for fragile customers. In 2020, the number of these letters rose sharply, with a 213 per cent increase in letters sent over the year (4105 letters in 2020 vs 1283 in 2019). This increased effort to provide information to customers identified as fragile resulted both from an expansion of the scope of customers contacted and a renewal of the information provided on a regular basis. In addition, this year the bank put in place a permanent early warning system using predictive fragility identifiers.

Each week, HSBC Continental Europe also sends customers who have signed up for this offering an account summary by text message, helping them to assess and monitor their budget.

In addition, aware that the Covid-19 health crisis could lead to an increase in the number of financially fragile people and of questions about how a highly diverse group of people could be supported, HSBC strengthened its support for the work of Crésus in order to help it expand its range of support and offer anyone in a fragile financial position, including our customers, an individually tailored service including attentive listening and legal, tax and financial advice.

The HSBC Foundation for Education also supports the Crésus charity, whose goal is to prevent financial, economic and social exclusion through intervention, training and high-level educational programmes. Support for the charity covers different programmes:

- The first, launched in 2013, is a support and mediation platform for individuals, including our employees, in difficult situations;
- The second, launched in 2018, covers financial education through 'Dilemma', a board game examining budgeting and financial issues. In 2020, to mark Sustainable Development Week, an on-line quiz was made available for people aged 15 to 20, to help them discover the basics of managing a budget and learn about banking products and services.

Since 2019, the HSBC Foundation for Education has been a member of France's *Institut pour l'Education Financière du Public* ('IEFP'): information on all of the IEFP's work can be found at lafinancepourtous.com. IEFP's aim is to help everyone acquire the basic knowledge required to feel comfortable with financial matters and understand the economic issues of the world we live in. The partnership between the HSBC Foundation for Education and the IEFP has made it possible to reach more than 59,000 of the 4,000,000 visitors to the *La finance pour tous* site.

In 2020, 184,250 people were sensitised to financial education or supported through our programmes and actions, this exceeding by 96 per cent the 2020 target of 60,000 people.

More on financial capability actions at https://www.hsbc.com/our-approach/building-a-sustainable-future/employability-and-financial-capability.

Performance indicators on economic and social risk relating to increases in vulnerable populations (theme 4)

	2020	2019	2018
Number of beneficiaries involved in the programmes	**184,250**	117,570	26,366
Progress towards 2020 objective	**307%**	196%	44%

An inclusive and responsible HR strategy

For human resources management at HSBC Continental Europe, 2020 brought very specific circumstances in several areas. Quite apart from the consequences of the health crisis, which mobilised the Human Resources Division, supporting the bank's transformation also had a central place. Against this background, human capital issues were the company's first priority. The associated risks are threefold:

- Risk of failure to recruit and retain talent ;
- Risk of inability to ensure the employability of our employees given the transformation of the banking sector;
- Risks related to lack of diversity among teams and psychosocial risks.

Responsible management of the health crisis to protect colleagues and customers

In all of the Continental European countries where HSBC is present, the pandemic resulted in restrictions on movement and working on site; significant changes to the organisation of work were made accordingly. Remote working was deployed immediately and on a massive scale (in France it affected some 90 per cent of employees), allowing business to continue efficiently and without interruption. Within the branch network, which remained open as an essential service, a mixture of adjustments to work teams, hours and remote working was used. Only 2 per cent of employees were put on paid leave during the lockdown period.

The unprecedented circumstances forced teams to adapt very quickly to new working conditions, which created a potential source of stress. Anxiety amongst staff was further increased by the health crisis (hospitalisations, deaths, etc.), the deterioration of the economic outlook, and the personal and professional difficulties created by the crisis (isolation, increased domestic and family responsibilities, health problems and so on). Lastly, with banks having special responsibility during the crisis and given the role they have played in supporting companies and individuals, employees faced periods of intense activity.

The 'psychosocial' risk (work-related stress, anxiety, depression) was thus addressed by a specific action plan that was closely monitored by the company:

- Regular and targeted communication campaigns from the Human Resources division (practical details on health matters and the organisation of work);
- Adjustments to the management of leave, to ensure that adequate leave could be taken without imposing requirements;
- Real time monitoring of Covid-19 cases and contact tracing, with the appointment of a contact person at the heart of the system backed by the Workplace Health Team;
- Regular dialogue with the bodies representing staff;
- Enhanced support for managers;
- A virtual support programme (#Résilience) for employees and management (webinars, co-development, coaching, etc.);
- Surveys (Snapshot Survey) and direct dialogue with employees ('Boost Your Bank' workshops). A survey in June allowed us to establish the perceived well-being of employees (65 per cent favorable responses) and identify the main obstacles to well-being (family and domestic responsibilities for 30 per cent, technological problems for 29 per cent). Overall, 87 per cent reported that they felt well-informed, and 81 per cent that they were well supported by their manager.

Supporting the on-going transformation of HSBC Continental Europe

Within the framework of its strategy implementation process, HSBC Continental Europe undertook numerous restructuring projects in 2020 both in France and in other Continental European countries (Poland, Italy, Spain, Czech Republic, etc.). This followed an information and consultation process with employee representative bodies at a European level (EWC) and in the countries concerned.

Within this framework, a collective redundancy plan was adopted in the autumn covering the Global Banking and Markets Division and resulting in the elimination of 235 positions in France. The terms of this plan received unanimous collective agreement with representative union bodies, guaranteeing a programme of support to employees that was equitable and adapted to their circumstances.

A contractual termination agreement relating to employees in Commercial Banking, support functions and at the head office has been negotiated with union bodies and approved on 1 February 2021 .

In both France and other European countries, these plans are based mainly on voluntary redundancies. Support measures, which in most cases are subject to negotiation and discussion with employee representatives in the countries concerned, will allow the departure of employees to take place, as usual, in a respectful, humane and responsible manner.

Responsible and inclusive HR policy

As a leading global employer, HSBC's main aim is to develop an HR policy that helps to develop the employability of staff members, while helping them to give their best to the Bank.

In an environment where potential expresses itself in many different ways, HSBC is convinced that employees' differences represent a source of wealth. It places a particular emphasis on diversity, so that it may be fully expressed in all its aspects, particularly regarding gender, age, skin colour, background, religion, disability, sexual orientation, appearance and opinions. All employees should be able to be themselves, in an organisation that places value on a diversity of profiles and opinions. Make this diversity an asset is a major stake for the bank.

Managing the risk of inability to ensure the employability of our employees given the transformation of the banking sector, by developing talent in all its guises and strengthening employability (theme 5)

Employability is a major theme in ensuring that people can adapt to organisational and technological changes, and more broadly changes in the labour market, particularly in the context of uncertainty and change such as was seen in 2020. To help prepare employees, it is necessary to support them in developing the skills that the business will require in the future.

Accordingly, HSBC provides the resources each employee needs to develop and take control of their career. Support is provided through an efficient training ecosystem (innovative content, tailored formats and individualised training) that facilitates continuous learning, internally and externally, and helps increase employees' adaptability, agility and multi-disciplinary talents.

In 2020, the HSBC Group rolled out an ambitious upskilling programme, 'Future Skills', which was backed in France by conferences, training sessions, and self-training materials, with 1,600 employees taking part. Its aim is to develop the core skills of tomorrow such as curiosity, creativity, teamwork, communication and resilience.

The goal is to make employees their own players of their career and to support them to become agile in our changing environment.

This aim runs alongside sustainability. More information on the HSBC Group's initiatives is available at https://www.hsbc.com/our-approach/building-a-sustainable- future/ employability-and-financial-capability.

With this goal in mind, we believe that one of our missions is to promote our development programmes, that are open to all, and to encourage employee uptake. To this end, we have set ourselves a target of 55 per cent of employees to have taken at least one module of our programmes each year. In 2020, the take-up rate was 48 % (see table below). 2020 was the first year of our French #resilience programmes and the first year of the Future Skills development programmes. Having almost one employee out of two who attended one of our session is really a good participation level. And as all of our training sessions have been recorded, all staff can have access to those contents in replay.

Promoting a range of learning methods

Because personal development is based not only on training but also on experience and feedback, HSBC Continental Europe offers the broadest possible range of resources to help develop new skills.

HSBC Continental Europe is continuing its efforts to encourage uptake and recognition by managers and employees of a 70/20/10 model, which combines three complementary training approaches:

- 70 per cent from experience-based learning. By seeking solutions through their professional practice, employees benefit from informal learning enhanced by information available on the bank's intranet, websites and business applications.

- 20 per cent of learning comes from discussions with colleagues, internal and external clients and managers. This method is based on regular feedback regarding which aspects work well, and which could be improved. The group developed a feedback-gathering tool during 2020, use of which is encouraged both on an on-going basis and prior to end-of-year reviews.
- 10 per cent of learning comes from classroom-based training or virtual training (e-learning and remote training). Training provision is updated each year, with an emphasis on sharing experience and experimentation to help lock in expertise. In the unusual circumstances of the health crisis, the majority of classroom learning was shifted online in 2020, with the exception of regulated 'certified' courses.

HSBC University: a platform available for all

Training gives meaning to the work our employees do, helps them develop new skills and makes them more employable. For HSBC, giving everyone access to training is a central aim, and so it has set up a group training platform called HSBC University, available to all employees through the HR portal and on smartphones. It is a vast library organised by business area themes, covering online training, classroom-based training, videos, articles and first-person accounts. External training resources (such as LinkedIn Learning and Degreed) covering themes like Big Data, Artificial Intelligence and Leadership are also available.

These short-format training programmes help develop curiosity and strengthen the training culture.

To support managerial staff, various leadership development programmes are offered to help develop management and leadership skills (inclusive management, authentic management, management through trust). This training offering was renewed at the end of 2020.

Providing support tailored to needs

For many years, HSBC Continental Europe has offered an individually-tailored approach through individual and collective coaching, to support employees with their personal development and individual performance, while aligning with the Bank's strategy of enhancing collective performance.

The individual coaching programme meets a growing range of needs (taking on a managerial role, professional development, developing employability, etc.) and is offered in person and, increasingly, via digital channels.

In 2020, HSBC mainly concentrated on distance learning, via a dedicated platform, to respond to the exceptional circumstances of the Covid-19 crisis (around 30 online courses and a dozen in person).

Collective coaching supports teams or employees sharing common development goals, particularly in areas such as change management and team-building.

In 2020, a massive support and development programme, called #résilience, was developed and deployed in France in response to the health crisis, with the initiatives provided seeing more than 5,000 log-ins. These ranged from webinars on the theory of VUCA to ways in which crises can be transformed into opportunities and on using our individual and collective resources to prepare for the 'new normal'. In addition to these conferences, which are open to all, a complementary programme was designed for managers to address current problems such as managing remotely, managing uncertainty and motivation.

Preparing the future: from identifying talent to identifying talents

HSBC is mindful that managing talent is of strategic importance, particularly in a current context of a health and economic crisis on the one hand, and strategic decisions that have committed HSBC CE to a far-reaching transformation on the other. HSBC therefore wants to back the individuals with profiles best-suited to current and future challenges and help increase their skillsets.

Talent identification involves both managers and employees themselves, so that the process is more coherent and consistent.

Every year, HSBC develops succession plans for positions considered as key. There are clear guidelines for this exercise in order to ensure that solid succession plans are in place and that they promote gender balance and favour internal promotion. There is a requirement to have at least four potential successors for each post, with at least one female successor for each key post and an 80/20 split of internal versus external recruitment.

HSBC develops its talent pool at the group level, but also within France through a range of development programmes: AIL, AFL, Explore (for the Group) and Inspire (for France).

Accelerating into Leadership ('AIL') and Accelerating Female Leadership ('AFL') are two programmes for developing women's leadership. The aim is to increase women's representation on executive bodies by providing tailored training.

Explore is a group programme that has helped staff members assess their potential (talents who could become future leaders of HSBC) via various stages of evaluation, based on proven methods from one of the recognised expert consultants in this area. In 2020, more than 80 employees at HSBC Continental Europe, among which 49 in France, have been invited to take part in the programme and almost a quarter of them have taken part in specific workshops.

Inspire, launched in 2019, is a leadership development programme designed and offered in France. Around 30 leading employees take part in a one-year course consisting of innovative and inspiring modules. Individual development targets are combined with collective targets to create a shared vision of leadership at HSBC Continental Europe.

Emphasising promotions and internal mobility

For HSBC Continental Europe, internal mobility is a vital way of developing and retaining staff members. By offering in-house career development opportunities, it fosters and recognises the potential of its talented employees, makes them more versatile and increases their sense of trust.

HSBC Continental Europe advertises positions for internal mobility on its HR portal, making them accessible to all. Employees can enter details such as internal and external professional experience and skills (such as foreign languages) and their geographical mobility preferences into an HR database. This information is used by the database to find the talent needed with corresponding skills.

In 2020, 381 employees were promoted, which was lower than in 2019, with men and women promoted in equal proportions.

Promotion

Key figures – HSBC in France

Gender	Number of promoted FTE	%
Women	166	53
Men	145	47
Total	**311**	**100**

Business lines	Number of promoted FTE	%
Retail Banking and Wealth Management	160	51
Commercial Banking	35	11
Global Banking and Markets	42	13
Private Banking	15	5
Central functions	60	19
Total	**311**	**100**

Key figures – International perimeter

Gender	Number of promoted FTE	%
Women	36	51
Men	34	49
Total	**70**	**100**

Business lines	Number of promoted FTE	%
Retail Banking and Wealth Management	1	1
Commercial Banking	19	27
Global Banking and Markets	34	49
Private Banking	0	–
Central functions	16	23
Total	**70**	**100**

Performance indicator for risk of inability to ensure the employability of our employees given the transformation of the banking sector (theme 5)

	2020	2019	2018
Take-up rates for development programmes open to all on a voluntary basis (annual target: 60%)	48%	NA	NA

Managing the risk of failure to recruit and retain talent by attracting and integrating the best people to support the bank's growth (theme 6)

In a rapidly changing banking industry (digitalisation accelerated by the health crisis, economic crisis, tighter regulatory requirements), HSBC aims to respond to the shift in employment patterns by attracting, recruiting and integrating the best talent.

To support its development and the creation of the Continental Europe platform, HSBC recruits staff from a variety of backgrounds and outlooks to contribute to the Bank's various business lines and functions in France and in the other countries of Continental Europe.

Key recruitment figures

HSBC in France

Gender	Recruit-ment Perma-nent Staff (*)	Recruitment Short-term contract (**)	Mobility Joiners from different society	Mobility Joiners from Foreign Country	Total Hiring	%
Women	157	30	5	2	194	51
Men	148	14	11	13	186	49
Total	**305**	**44**	**16**	**15**	**380**	**100**
Business lines						
Retail Banking and Wealth Management	215	34	9	1	259	68
Commercial Banking	53	3	1	1	58	15
Global Banking and Markets	16	0	0	7	23	6
Private Banking	0	2	0	0	2	1
Central	21	5	6	6	38	10
Total	**305**	**44**	**16**	**15**	**380**	**100**

(*) External recruitments.
(**) of which 29 additional workload contracts and 9 replacement contracts.

International perimeter

Gender	Total hiring (FTE)	%
Women	25	53
Men	22	47
Total	**47**	**100**
Business lines		
Retail Banking and Wealth Management	–	–
Commercial Banking	28	60
Global Banking and Markets	15	32
Private Banking	–	–
Central functions	4	8
Total	**47**	**100**

Internal mobility remains our preferred channel. Employees can then grow within HSBC Continental Europe, within its subsidiaries and internationally. In 2020 there were 324 internal transfers (change of position for existing employee, either as a change of job classification or location).

Recruitment of young people is an important challenge for HSBC Continental Europe

In 2020, and despite the difficulties created by the health crisis, HSBC continued to recruit young people through its four preferred channels: 173 apprentices, 267 interns, nine VIE graduates and eight graduates were recruited in France over the course of 2020. Induction processes were adjusted to allow remote induction where no other alternative was available. Mentors also adopted remote contact to enable young recruits to enjoy a successful professional experience.

Two of our programmes have proved particularly popular with students:

- The *Volontariat International en Entreprises ('VIE')* or international professional assignment programme: young graduates undertake assignments of between six and 24 months, mainly in London, New York and Hong Kong, in areas such as Global Market Operations, IT, Risk and Finance.
- Global Graduate: an HSBC Group programme for young graduates with a carousel of placements at the beginning of their contract in Global Banking and Markets and Commercial Banking. This programme encourages graduates to discover various roles within each division whilst acquiring cutting-edge skills.

Events were organised to promote HSBC as an employer amongst young graduates. In 2020 HSBC Continental Europe took part in more than 30 events organised by targeted schools using mostly virtual formats (virtual forum, coaching, recruitment interviews, presentation of HSBC business lines, and Instagram Future Skills interviews).

Performance indicator relative to risk of failure to recruit and retain talent (theme 6)

	2020	2019	2018
Attrition of talent (annual target: 7%)	**12%**	3%	NA

In term of retention of our talented people, the 2020 results show a 12 per cent attrition compared to a target at 7 per cent. The transformation context lead our talents to question more about their future within an uncertain organisation and to be more aware of external opportunities.

In order to improve the situation, a Talent Review will be deployed in Q2 2021 to better identify our talents and then to better support them in their development. At a local level, we will deploy the second wave of our local Leadership Development Programme Inspire, which aims to develop people, to create a x-business Network of future Leaders and to act as a retention tool since it's a really high level development programme.

Managing risks related to lack of diversity among teams and psychosocial risks, by creating a framework for engagement (theme 7)

Diversity and quality of life at work are crucial distinguishing features for HSBC. As well as fostering commitment, they also represent an investment in the future of the business: we are confident that committed, healthy employees will help us to improve our economic performance and make the group more appealing. HSBC Continental Europe has set itself the target of continuing to promote diversity, equality and inclusion and to improving life quality at work and developing a shared culture of wellbeing at work. In France, these targets resulted in the signature of an agreement on professional equality and quality of life at work that runs to 8 March 2022. This agreement has two priority themes:

- diversity, equality and inclusion;
- quality of life at work, flexibility of working arrangements and issues around logging off.

The specific circumstances of the health crisis led us to step up efforts to protect our employees' health and quality of life and to adapt provisions for remote working.

Diversity, equality and inclusion

HSBC believes that its employees' differences are a source of wealth. The challenge is to foster and make the most of those differences with the aim of creating internal cohesion, increasing motivation and engagement, and making employees proud to belong to the Group.

Tackling discrimination and promoting diversity

Diversity and inclusion have always been part of HSBC's identity. In 2020, HSBC Continental Europe continued to act on its business culture, notably through awareness building campaigns. For example, HSBC Continental Europe requires its recruitment service providers to provide a shortlist of candidates including at least one man and one woman and, where the post is a management or specialist position requiring more than ten years of professional experience, at least one 'senior' candidate.

Despite uncertain public health conditions, HSBC Continental Europe continued to recruit for 'summer jobs', working with our equality of opportunity charity partners: *Sciences Po, Fondation Egalité des Chances and Tremplin.* This approach aims to favour diversity of origin amongst summer job candidates. Ten young people benefited from this opportunity in 2020.

Having run its unconscious bias training programme for three years, training nearly 400 HR managers and professionals, the bank continued the process by launching its new 'Inclusive Leadership' training programme in 2020.

To ensure a broader reach for its inclusive business culture, HSBC Continental Europe has continued its awareness building programme, notably through discussions on diversity and inclusion and by drawing on its Employee Resources Group of committed employees: 50/50 Partner of Balance and Pride Network France.

Thus, many tutoring programmes – internal and external – are offered to employees taking volunteer roles, so that they may step out of their 'usual' settings and develop new expertise. In 2020, several mentoring programmes were running within HSBC, with around 40 mentors for Global Banking and Markets and around 30 for Commercial Banking. In addition, 106 employees are supporting talented young people from disadvantaged backgrounds through structures supported by the HSBC Foundation for Education (Convention Prioritaire de Sciences Po, Fondation Egalité des chances, Article 1).

HSBC Continental Europe, through the HSBC Foundation for Education, also supports:

- several organisations including Article 1, *Fondation Sciences Po and Fondation Egalité des Chances,* which encourage and support young people into further education and improve their chances in the labour market;
- digital training such as that offered by the charity *Musique et Culture Digitales ('MCD')*, which has the Paris Code label;
- entrepreneurship programmes for the most vulnerable populations: *Je Deviens Entrepreneur with L'Adie, Les Entrépides with Fondation Entreprendre* and the Women International Programme with *Réseau Les Premières;*

Gender equality

With women making up more than 56 per cent of executives at HSBC France, the Bank continued its efforts to promote gender equality in 2020.

In addition the HSBC Group has set itself clear and transparent targets for the proportion of women in senior executive positions. These targets have two end dates: 30 per cent of senior executives to be women by 2020, rising to 35 per cent by 2025. HSBC Continental Europe continues to invest to achieve this target, with women making up nearly 29 per cent of Global Career Banding GCB0-3 positions at December 2020.

A monitoring dashboard for progress in increasing the proportion of women in positions of responsibility is reviewed twice a year by the HSBC Continental Europe Management Committee.

Inclusion of employees with disabilities

With a reported employment rate of people with disabilities of 5.3 per cent (Number of people with a declared disability as a percentage of total employees), HSBC in Continental Europe continued to favour the recruitment and inclusion of employees with disabilities in 2020. The bank works in partnership with Tremplin, a charity specialising in the inclusion of young people with disabilities in the labour market.

Within the context of the Covid-19 pandemic, HSBC Continental Europe made widespread use of remote working for its employees. Combined with the transfer of workstation adaptations to their home offices, this allowed the largest possible number of employees with disabilities to continue to work under good conditions.

The theme of mental health was a particular focus of awareness raising programmes in 2020. Dedicated manager training, a conference and discussions all addressed this theme.

To improve day-to-day living standards, in France more than 500 disabled employees or employees with a disabled close relative received 'CESU' cheques (enabling them to pay for domestic help) financed entirely by HSBC, while nearly 60 employees were supported in measures to alleviate their disability and maintain their employment, through a range of support including the financing of individual equipment or other adaptations.

Improving quality of life at work to foster employee commitment

Ensuring a good quality of life at work results in a committed workforce: accordingly, HSBC Continental Europe's senior management focuses on this topic in order to increase employees' sense of fairness and belonging, to foster cohesion and to protect employees' mental and physical health, which has taken on even greater importance in the health crisis.

Increasing employees' commitment is a strategic aim for HSBC, and employees' professional fulfilment is a key priority for the Bank.

Awareness-building and training on quality of life at work

In addition to actions already in place – such as the 'action for workplace well-being' which focuses on developing high-quality relationships (empathy, affirmation, caring), conflict prevention and resolution, the management of emotions at work, and guidelines on managing 'logging off' outside work hours – HSBC committed to strengthening measures to support employees during the pandemic. Frequent communication, with both employees and managers, and awareness building measures under the #résilience programme are all examples of additional awareness building in 2020.

Giving employees more flexibility

HSBC Continental Europe is attentive to offering more flexible working arrangements to employees to help improve work-life balance. By way of illustration, a group agreement on remote working, which has been in place in France for two years, expanded the options for working from home for salaried executive employees to allow occasional and flexible working from home. Home working on specific days is also in place.

Against the background of the health crisis, HSBC Continental Europe allowed more than 90 per cent of staff to work from home from the early days of the crisis until the end of 2020. As existing measures to allow remote working had created a flexible work culture, the transition to a more virtual organisation, across all Continental European countries, was a smooth process. Specific training programmes for managers were introduced to support them in more widespread remote working, and this was backed by initiatives to encourage good use of digital tools such as 'We Innovation'.

In addition, for some time now, considerable attention has been paid to maintaining social links within the company, equality of treatment of staff and respect for private life and the right to disconnect. In the context of the health crisis, employees were invited to use an existing facility to provide details of their location (on site or at home) to allow managers to get a quick view of the whereabouts of their teams.

Ensuring the correct use of digital tools

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

A charter drawn up by HSBC Continental Europe's Executive Committee establishes 10 major principles that aim to encourage staff members to adopt day-to-day behaviors and rules that help to reconcile their private and professional lives.

Throughout 2020, against the background of the health crisis and the massive use of remote working, employees were reminded of these guiding principles through regular communication distributed via DRH Info, with Q&A packs provided to managers. This communication helped raise awareness of approaches to help structure work during lockdown, good practice to avoid overwork, preventing isolation and strengthening team spirit.

A guide to the correct use of digital tools was made available to all HSBC staff and contains best practice for optimal use of digital tools that respects the work/life balance. This guide was incorporated into all communications available to employees on the dedicated Covid-19 intranet site.

Strengthening the collective ability to manage change and measuring employees' satisfaction and wellbeing

Listening to employees is based on a range of approaches:

- The 'Exchange' groupware application, which for managers consists of organising agenda-free consultation meetings, in which managers take part without taking any hierarchical stance. This innovative approach allows staff members to discuss any subject freely. The resulting feedback is sent to the HSBC Group. Since the programme was launched in 2012, it has been clear that employees taking part in an Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes affecting HSBC.
- Group engagement surveys: 'Snapshot' is a regular survey of employees around the world, which aims to assess understanding of the bank's strategic priorities and measure perception of changes through various themes: strategy, Global Standards, communication, customer experience, culture and working methods.
- In the first half of 2020, a survey focusing on employee well-being in the context of the pandemic helped identify the fact that the biggest difficulty faced by staff was managing work/life balance. At the same time, the quality of support from HSBC was highlighted by more than 80 per cent of respondents. This report allowed us to adjust the systems we had put in place.
- In the second half of 2020, a further Snapshot study showed stable or slightly improved scores for HSBC Continental Europe relative to the first half of 2019.
- Confidence in line managers, the ability to express oneself if faced with unacceptable behavior and a feeling of professional satisfaction all saw better scores compared to previous survey.
- The survey shows areas of improvements regarding ownership of the strategy by the employees.
- These Group initiatives are supplemented in France by a medical stress-monitoring system (since 2004) and a framework for identifying and measuring work-related stress (since 2012). The most recent findings reflected employee concern over the difficulties facing the banking sector and the worries about the deterioration of the economic climate. They also showed that the quality of working relationships with line managers and between colleagues, work-life balance, the work environment, and level of independence remained as positive factors.

Results for 2020 are not yet known, and will reflect the highly unusual context of a major health crisis. During this period, the ability to reconcile maintaining business levels remotely and protecting the health of employees has been recognised by all employees.

Performance indicators for risks related to lack of diversity among teams and psychosocial risks (theme 7)

	2020	2019	2018
Share of women in senior executives positions (2025 target : 35%)	**29.3%**	30%	31%

An interactive process: Boost Ta Banque

Interactive workshops were held involving more than 300 employees from all business lines and all regions.

Employees were able to work on a variety of themes such as recognition, independence and the complexity of the organisation. They brought forward concrete solutions to improve operations and strengthen employee engagement.

All these proposals were submitted to the Executive Committee, which chose the actions to be implemented immediately and projects for which a further call for volunteers was issued, attracting 90 employees. From the integration of new employees, to the introduction of 'life swap' programmes, via pride in belonging, these projects gave employee volunteers an opportunity to contribute to enhancing the employee experience, whilst working with members of the Executive Committee.

In 2020, the second edition of *Boost Ta Banque* was run to allow employees to share how they had experienced the unprecedented situation caused by Covid-19 and to gather collective intelligence in order to identify the positive aspects of the crisis and find means to retain these benefits when creating the 'new normal' at HSBC.

To achieve this, 10 remote workshops were run over Zoom, bringing together 115 volunteer employees.

Having identified the five main positives from lockdown, participants proposed 90 recommendations in three priority areas: remote working, caring, and processes and tools. All these proposals were submitted to the Executive Committee for consideration, and some are already under review or being implemented.

An attractive and fair remuneration policy

HSBC Continental Europe's remuneration policy is designed to attract, motivate and retain the best employees. It is a powerful driver of staff commitment, and one that HSBC makes full use of.

HSBC Continental Europe addresses this strategic priority with a remuneration policy that is both attractive and fair, in order for each employee to be treated fairly.

The remuneration policy recognises and rewards the efforts made, engagement, involvement, contribution and the collective and individual performance of each of our employees through an annual budget for collective and/or selective wage adjustments, individual variable remuneration and, based on results, collective remuneration in the form of bonuses and profit sharing.

It helps finance employees' day-to-day lives through the payment of various contributions, such as for child care, the new academic year, holidays through holiday voucher top-ups or in the event of mobility within the company. Lastly, it provides guarantees that will last throughout an employee's career at HSBC and beyond: continuation of salary and health cover in the event of illness, provident services in the event of incapacity and the supplementary pension scheme that has been in place for many years to help our employees boost their income in retirement.

This policy forms part of an approach that seeks to treat all of our employees fairly. This approach is best illustrated by a few examples.

For more than 10 years, the collective agreements that HSBC France has entered into have included an automatic salary review for people returning from maternity or adoption leave. Specific fairness budgets over the last ten years (EUR 8.8 million) have helped establish wage fairness in several areas. Women's pay, over virtually the whole of the employment grade scale, was between 98.5 per cent and 101.1 per cent of men's pay in 2020.

Ratio theoretical wage W/M

Status	Convention Level	2018 %	2019 %	2020 %
Technician	C	–	–	**–**
	D	98.2	–	**–**
	E	98.4	98.6	**98.8**
	F	101.2	100.6	**101.1**
	G	100.1	100.2	**100.9**
Executive	H	99.1	99.6	**99.1**
	I	98.6	98.6	**98.5**
	J	99.6	98.6	**98.6**
	K	99.8	100.1	**100.6**

Pay for employees working part-time, across different employment grades, was between 98.2 per cent and 106.5 per cent of that of full-time employees in 2020.

Ratio theoretical wage Part Time W/M

Status	Convention Level	2018 %	2019 %	2020 %
Technician	C	–	–	**–**
	D	–	–	**–**
	E	102.9	104.6	**106.5**
	F	104.5	104.9	**104.3**
	G	100.4	101.7	**101.3**
Executive	H	100.5	101.3	**100.9**
	I	98.3	99.2	**99.3**
	J	100.2	99.7	**99.6**
	K	97.2	98.8	**98.2**

The salary of disabled workers was between 97.5 per cent and 112.8 per cent of that of all workers. Personal service vouchers (CESU) financed in full by the company were introduced in 2015 to assist employees with disabilities and employees with a close relative with disabilities.

Ratio theoretical waged disabled employees / other employees

Status	Convention Level	2018 %	2019 %	2020 %
Technician	C	–	–	**–**
	D	–	–	**–**
	E	107.7	111.2	**112.8**
	F	103.8	104.9	**105.9**
	G	101.4	102.5	**102.7**
Executive	H	100.5	100.8	**100.9**
	I	97.5	97.3	**97.5**
	J	98.7	98.9	**98.0**
	K	98.6	100.3	**99.4**

Table of social performance indicators of HSBC Continental Europe

		Change	
Indicators	2020	2019	2018
1 – Workforce split by status, gender and contract of employment (FTE):			
Total FTE – HBCE in France	**7,238**	7,472	7,586
o/w unlimited term contracts	***7,183***	*7,437*	*7,555*
– o/w women managers	***2,926***	*2,997*	*2,982*
– o/w men managers	***2,781***	*2,861*	*2,928*
– o/w women clerical staff	***1,130***	*1,205*	*1,257*
– o/w men clerical staff	***346***	*373*	*389*
o/w Impatriate contracts	***15***	*15*	*14*
– o/w women	***5***	*4*	*4*

– o/w men	***10***	*11*	*10*
o/w fixed-term contracts	***40***	*20*	*17*
– o/w women managers	***6***	*10*	*8*
– o/w men managers	***3***	*4*	*8*
– o/w women clerical staff	***22***	*3*	*2*
– o/w men clerical staff	***9***	*3*	–
Total female FTE	**4,089**	4,220	4,252
% women	**56.5%**	56.2%	56.1%
Total male FTE	**3,149**	3,253	3,334
% men	**43.5%**	43.3%	43.9%
Total FTE – International network	**1,279**	1,385	627
Total female FTE	***652***	*700*	*360*
% women	**51.0%**	50.6%	57.4%
Total male FTE	**627**	685	267
% men	**49.0%**	49.4%	42.6%
Total FTE – HBCE in France + International network	**8,517**	8,857	8,213
Total female FTE	**4,741**	4,920	4,612
% women	**55.7%**	55.5%	56.2%
Total male FTE	**3,776**	3,937	3,601
% men	**44.3%**	44.5%	43.8%
2 – Hires and dismissals (FTE)			
Recruitments (FTE) HBCE in France	**380**	851	787
% recruitments	**5.2%**	11.3%	10.4%
Dismissals (FTE) HBCE in France	**93**	100	98
% dismissals	**1.3%**	1.3%	1.3%
Recruitments (FTE) International	**47**	106	55
% recruitments	**3.6%**	7.6%	8.8%
Dismissals (FTE) International	**6**	5	–
% dismissals	**0.5%**	0.4%	–
Recruitments (FTE) HBCE in France + International network	**426**	957	842
% recruitments	**5.0%**	10.8%	10.3%
Dismissals (FTE) HBCE in France + International network	**99**	105	98
% dismissals	**1.2%**	1.2%	1.2%
3 – Equality of treatment			
% of women in management HBCE in France (FTE)	**29.0%**	30.0%	30.0%
% of women in management International network (FTE)	**30.5%**	28.6%	47.6%
in France + International network (FTE)	**29.3%**	29.7%	31.0%
Number of persons with disabilities (only HBCE in France)	**425**	439	458
% employees with disabilities (only HBCE in France)	**5.3%**	5.2%	5.3%
% of employees less than 30 years old HBCE in France (FTE)	**10.0%**	11.2%	10.8%
% of employees over 50 years old HBCE in France (FTE)	**32.6%**	31.2%	30.4%
% of employees less than 30 years old International network (FTE)	**7.3%**	8.9%	7.7%
% of employees over 50 years old International network (FTE)	**18.1%**	15.6%	10.2%
% of employees less than 30 years old HBCE in France + International network (FTE)	**9.6%**	10.8%	10.5%
% of employees over 50 years old HBCE in France + International network (FTE)	**30.4%**	28.8%	28.9%

Governance policies adjusting to social changes

Risks relating to laws, regulations, standards, rules, internal policies and best practice in tackling money laundering and the financing of terrorism, the respect of international sanctions and tackling corruption are subject to heightened monitoring through the use of a system of appropriate checks and the implementation of measures to evaluate these risks.

Risks of money laundering and financial crime: preventing the risk (theme 8)

HSBC has a responsibility to help protect the integrity of the global financial system. In order to fulfil this responsibility, we have made, and continue to make, significant investments in our ability to detect, deter, and prevent financial crime. Various programmes have been implemented and others are under way to improve systems and day-to-day practices for managing risks relating to money laundering, tax fraud, compliance with sanctions and corruption. Within HSBC Continental Europe, every month, all transactions – more than 28 million across 1.7 million accounts – are analysed to detect signs of money laundering, tax avoidance and failure to comply with sanctions. In addition, 1.7 million names are screened on an ongoing basis using various surveillance lists. The Bank has cut links with customers, products, and countries where we deemed the financial crime risk too high to manage. The HSBC Group is also working with governments and other banks to advance its collective interests in this area. These steps are enabling us to reduce the risk of financial crime much more effectively.

In order to ensure the effectiveness of our policies, an annual training course has been taken by over 98 per cent of HSBC Continental Europe employees, which is in line with the bank's Risk Appetite of having at least a 98 per cent mandatory training completion rate (the Risk Tolerance is set at 97 per cent).

Performance indicator for risk of money laundering and financial crime (theme 8)

	2020	2019	2018
Share of staff members trained on theme	**98%**	98%	96%

For more details, see Risks, Regulatory Compliance Risk Management page 147.

More information about HSBC financial crime policies at https://www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk/financial-crime-risk-policies

Risks of corruption*: preventing the risk (theme 9)

HSBC is committed to high standards of ethical behaviour and operates a zero tolerance approach to bribery and corruption. We consider such activity to be unethical and contrary to good corporate governance and require compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which we operate. We have a global Anti-Bribery & Corruption Policy which gives practical effect to global initiatives such as the Organisation of Economic Cooperation and Development ('OECD') Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Principle 10 of the United Nations Global Compact

As regards combating corruption, HSBC Continental Europe is committed to complying with France's Sapin 2 act and to adopting a zero- tolerance attitude to corruption.

In 2018, France's anti-corruption agency *AFA* carried out 47 audits in France, including one at HSBC Continental Europe. Certain areas of concern were highlighted and efforts to resolve them are currently underway, to enable the Bank to comply with the Sapin 2 Act's eight pillars such as risk mapping and internal control.

Performance indicator for risk of corruption (theme 9)

	2020	2019	2018
Share of employees trained on this theme	**98%**	98%	96%

For more details, see Risks Financial Crime Risk Management, page 148.

More information about HSBC financial crime policies at https://www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk/financial-crime-risk-policies

Risks relating to tax evasion*: preventing the risk (theme 10)

HSBC is committed to applying both the letter and spirit of the law in all territories in which it operates. We aim to have open and transparent relationships with all tax authorities, ensuring that any areas of uncertainty or dispute are agreed and resolved in a timely manner. As a consequence, we believe that we pay our fair share of tax in the jurisdictions in which we operate.

Certain clients of HSBC Continental Europe could seek to use its services for tax evasion purposes, exposing the bank to accusations of complicity which, if confirmed, could lead to severe financial, legal and reputational consequences.

HSBC has adopted the Code of Practice on Taxation for Banks 1 which was introduced in 2009 and manages tax risk in accordance with a formal tax risk management framework.

We apply a number of tax initiatives which were introduced after the global financial crisis with the aim of increasing transparency. These initiatives address the tax positions both of companies and of their customers. These include:

- The US Foreign Account Tax Compliance Act ('FATCA');
- The OECD Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard');
- The Capital Requirements Directive IV ('CRD IV') Country by Country Reporting 2;
- The OECD Base Erosion and Profit Shifting ('BEPS') initiative;
- The UK legislation on the corporate criminal offence ('CCO') of failing to prevent the facilitation of tax evasion.

1 See the UK Government's code of practice on taxation for banks.
2 See hsbc.com for our approach to tax transparency.

Performance indicator for risk of tax evasion (theme 10)

	2020	2019	2018
Share of staff members trained on theme	**98%**	98%	96%

For more details, see Risks, page 151.

More information about HSBC anti-bribery and corruption policies at https://www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk/financial-crime-risk-policies

Risks in the areas of cybersecurity and IT attacks: preventing the risk (theme 11)

HSBC Continental Europe, in common with other organisations, is subject to a growing number of increasingly sophisticated cyber-attacks that can in some instances affect its operations, including the availability of digital facilities for customers.

The Bank's IT security system is crucial for the proper functioning of its banking services, the protection of its customers and of the HSBC brand. With the aim of maintaining it at its best possible level, HSBC Continental Europe continues to strengthen its technical resources, its monitoring systems and its governance to prevent and withstand the growing threat from cyber-attacks.

The cyber threat is a top priority for the management team and is the subject of regular communication and discussion in order to ensure the appropriate visibility, governance and support for our cyber-security programme. HSBC Continental Europe has not reported any significant security incidents in the last 12 months, thus meeting its objective.

Performance indicator for risks in cybersecurity and IT attacks (theme 11)

	2020	2019	2018
Number of significant security incidents over last 12 months	**0**	0	0

For more details, see Security Risks, page 152.

Risks in terms of non-compliance with Human Rights: preventing the risks (theme 12)

HSBC's commitment to respecting human rights, principally as they apply to our employees, our suppliers and through our lending, is set out in our 2015 Statement on Human Rights. This statement, along with our ESG Updates and our statements under the UK's Modern Slavery Act ('MSA'), which include further information, is available on www.hsbc.com.

HSBC also has an ethical and environmental code of conduct that the Bank imposes on its suppliers and which takes into account modern slavery legislation and human rights.

HSBC Continental Europe is fully aligned with these Group commitments and policies. Thus, since March 2017, as part of the new contracts process and the renewal process of the contracts, suppliers are systematically asked to sign the code of ethical and environmental conduct established by the Group. At the end of December 2020, 97 per cent of the suppliers concerned had responded positively, thus meeting the objective of a supplier return rate close to 100 per cent.

HSBC Continental Europe operates a vigilance plan to meet the requirements of France's new Duty of Care act. Given the legislative and regulatory framework, the scope of its businesses and the procedures in force within the HSBC Group, risks relating to a failure to respect human rights are not material for HSBC Continental Europe.

For more details on the 'Duty of Care' act, see page 77.

HSBC Confidential Internal whistleblowing system

HSBC strives to create a working environment in which employees feel free to share their concerns. Aware that certain circumstances require special discretion, it simplified its whistleblowing system in 2015, detailed in its duty of care plan on page 78

Arrangements in place within HSBC Continental Europe in France and figures

In accordance with Law N° 2016-1691 of December 9, 2016 relating to transparency, the fight against corruption and the modernisation of economic life, this solution allows employees to report, as soon as the usual channels for raising concerns are unavailable or inappropriate, without fear of retaliation, concerns relating to the following matters:

- a crime or an offense (e.g. corruption, fraud, embezzlement, harassment, discrimination ...), a serious and manifest violation of an international standard, law or settlement or serious violation of human rights and fundamental freedoms, human health and safety and the environment,

- events presenting a threat or serious prejudice to the general interest or any situation likely to generate a significant financial or reputational risk for the bank.

HSBC Confidential in France is placed under the supervision of the Audit Committee. Investigations are conducted, in a confidential, in-depth and independent manner by investigators from different departments, mainly Compliance and Human Resources. Controls are in place relating to maintaining confidentiality and to protect whistleblowers from the risk of retaliation. Periodic communication and awareness initiatives for employees are intended to encourage 'Speak-up culture' within HSBC.

30 alerts were received and accepted into the HSBC Confidential channel in France in 2020, down 44 per cent compared to 2019. The main theme emerging from the admitted alerts was related to human behaviour in the work environment.

Arrangements in place in the HSBC Continental Europe branches and figures

Alerts sent by employees in HSBC Continental Europe branches are received and fully processed by the Group (with the exception of the Polish branch which receives its alerts locally as France). The Whistleblowing oversight team in France within HSBC Continental Europe Compliance monitors activities relating to the whistleblowing arrangements in HSBC Continental Europe branches.

In HSBC Continental Europe branches, 6 alerts were received in 2020. All of these alerts related to poor human behaviour in the work environment (HR cases).

For more details on the 'Duty of Care' act, see page 77.

Performance indicator for risk of non-compliance with Human Rights (theme 12)

	2020	2019	2018
Share of suppliers who signed the Code of Conduct in the renewal process	98%	97%	39%

Methodological details on corporate social and environmental information

Scope of reporting

On 1 December 2020, HSBC France became HSBC Continental Europe.

For 2020 financial year, the scope of the Extra Financial Performance declaration is based on a geographic scope identical to that for 2019.

Within HSBC Continental Europe, the workforce in France represented 85 per cent of the total workforce as at 31 December 2020, the rest of the workforce being shared between the 10 other markets. We have chosen to carry out the verification work in France.

The work done by PwC in relation to the fairness review therefore looked at a scope identical to that used for 2019.

The scope of each indicator is shown in the table of sustainability performance indicators for the HSBC Group in France. The scope may vary depending on the availability of data or type of indicator.

Workforce-related indicators concern HSBC in France (excluding HSBC Bank PLC Paris Branch and HSBC Global Services (UK) LTD): HSBC Continental Europe, HSBC *Assurances Vie* (France), HSBC Global Asset Management (France).

Environmental indicators concern HSBC Continental Europe in France excluding the call Centre based in Reims.

Change in scope

For environmental indicators, entities consolidated or de-consolidated during the year are accounted for in the data reported on the date they enter the Group and until the date they exit.

Reporting period

The annual reporting period is the calendar year (from 1 January to 31 December). For environmental indicators, the 2020 data are based on figures covering the reporting period from 1 October 2019 to 30 September 2020.

Reporting tools and processes

For environmental indicators

The reporting tool is Metrix, developed by Enablon, which is used by the HSBC Group. Its main functions include the collection of data on energy (kWh), CO_2 emissions, water (m^3), paper (tonnes), waste (tonnes), km travelled and other data: comments, operational surface areas (m^2), number of sites, workforce ('FTE'), initiatives, dual validation at country level, then at regional and global levels and, finally, dashboards.

For social indicators

The information that appears in reporting documents is the result of queries from People insight.

Details on the definition of certain indicators

Environmental indicators

CO_2 emissions result from the consumption of electricity, gas, fuel oil, urban heating and air conditioning. Transport-related CO_2 emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the group car fleet. Energy consumption is partly estimated as invoicing and reporting periods do not overlap precisely.

Social indicators

The total workforce includes employees under permanent contracts (including impatriates but excluding expatriates) and under fixed-term contracts (replacement and additional fixed-term contracts) depending on their activity rate (FTE). Expatriation contracts, work-study contracts, professional training contracts, trainees, temporary workers, suspended contracts, employees on early retirement, employees on permanent disability are excluded. Holiday auxiliary staff are excluded. Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. An employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire.

Table of sustainability performance indicators of HSBC Continental Europe

Risks relating to banking activities

Indicator as of 31 Dec 2020	**2020**	2019	2018
Risk of customer disappointment (theme 1)			
Commercial banking customers overall satisfaction rating	**6.8**	6.8	NA
Share of commercial banking's customers complaints handled within 5 business days	**43%**	45%	NA
Risk relating to the non-alignment of emissions financed with a net zero pathway (theme 2)			
Contribution to Group's sustainable finance 2025 objective (USDm) [1]	**13,895**	6,848	5,285
Exposure to coal	**0.16 %**	NA	NA
Evolution of net new money in responsible investment funds year on year (%)	**(2)%**	164%	190%
Risk relating to the non-alignment of the bank's operational carbon footprint with a net zero pathway (theme 3)			
CO_2 emissions [3] (thousands of tonnes equiv CO_2) per employee [4]	**0.48**	0.60	0.66
Evolution year on year (%)	**(21)%**	(10)%	3%
Economic and social risk relating to increases in vulnerable populations (theme 4)			
Number of beneficiaries involved in the programmes supported by HSBC Continental Europe	**184,250**	117,570	26,366
Progress towards 2020 objective (%)	**307%**	196%	44%

People KPI

Risk of inability to ensure the employability of our employees given the transformation of the banking sector (theme 5)			
Take-up rates for development programmes open to all on a voluntary basis (annual target: 60%)	**48%**	NA	NA
Risk of failure to recruit and retain talent (theme 6)			
Attrition of talent (annual target: 7%)	**12%**	3%	NA
Risks related to lack of diversity among teams and psychosocial risks (theme 7)			
Share of women in senior executives positions (2025 target : 35%)	**29.3%**	30%	31%

Governance KPI

Risks of money laundering and financial crime (theme 8)			
Risks of corruption* (theme 9)			
Risks relating to tax evasion* (theme 10)			
Share of staff members trained on themes 8, 9 & 10	**98%**	98%	96%
Risks in the areas of cybersecurity and IT attacks (theme 11)			
Number of significant security incidents over last 12 months	**0**	0	0
Risks in terms of non-compliance with Human Rights*			
Share of suppliers who signed the Code of Conduct in the renewal process	**98%**	97%	39%

1 *With the change in scope from HSBC France to HSBC Continental Europe, the indicator has been recalculated for 2019 and 2018 on the basis of the 2020 scope.*
2 *CO_2 emissions energy and transports.*
3 *Base: subject workforce.*

Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated non-financial statement included in the Group management report

For the year ended on the 31 of December of 2020

This is a free translation into English of the Statutory Auditor's report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the HSBC Continental Europe annual general meeting,

In our capacity as Statutory Auditor of your HSBC Continental Europe, appointed as an independent third party and accredited by Cofrac(accreditation Cofrac Inspection n°3-1060 whose scope is available at www.cofrac.fr), we hereby report to you on the non-financial information statement for the year ended... (hereinafter the "Statement"), included in the management report pursuant to the legal and regulatory provisions of articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce*).

The entity's responsibility

Pursuant to legal and regulatory requirements, the Board of Directors is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are available on request from the Sustainable Finance Direction.

Independence and quality control

Our independence is defined by the provisions of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional guidance and applicable legal and regulatory requirements.

Responsibility of the Statutory Auditor, appointed as an independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the provisions of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225-105 I, 3 and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on:

- The entity's compliance with other applicable legal and regulatory provisions, in particular the French duty of care law and anti-corruption and tax evasion legislation;
- The compliance of products and services with the applicable regulations.

Nature and scope of our work

The work described below was performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code determining the conditions in which the independent third party performs its engagement and with the professional

guidance of the French Institute of Statutory Auditors ("CNCC") applicable to such engagements, as well as with ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information

Our procedures allowed us to assess the compliance of the Statement with regulatory provisions and the fairness of the Information:

- we obtained an understanding of all the consolidated entities' activities, the description of the social and environmental risks associated with their activities, as well as the resulting policies and their outcomes;
- we assessed the suitability of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 225-102-1 III;
- we verified that the Statement includes an explanation for the absence of the information required under article L. 225-102-1 III, 2;
- we verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships and products or services, as well as its their policies, measures and the outcomes thereof, including key performance indicators;
- we verified, where relevant with respect to the principal risks or the policies presented, that the Statement provides the information required under article R. 225-105 II;
- we assessed the process used to identify and confirm the principal risks;
- we asked what internal control and risk management procedures the entity has put in place;
- we assessed the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented;
- we verified that the Statement covers the scope of consolidation, i.e., all the companies included in the scope of consolidation in accordance with article L. 233-16 within the limitations set out in the Statement;
- we assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;

- for the key performance indicators and other quantitative outcomes that we considered to be the most important, we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data,
  - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on the contributing entity 'La Défense site' and covers between 90 percent and 100 percent of the consolidated data relating to the key performance indicators and outcomes selected for these tests;
- we referred to documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that we considered to be the most important (see the list provided in the appendix);
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

Means and resources

Our work was carried out by a team of 5 people October 2020 and mid-February 2021 and took a total of 6 weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted about twenty interviews with 21 people responsible for preparing the Statement, representing strategic management, sustainable development, human resources, marketing, supply chain and purchasing departments.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial information statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, the 24th of February of 2021

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Agnès Hussherr	Pascal Baranger
Partner	Sustainable Development Director

Appendix: List of the information we considered most important

Key performance indicators and other quantitative results:

- Overall satisfaction rating of business customers;
- Complaints from business customers processed in less than 5 working days;
- Contribution to the Group's sustainable finance 2025 objective (USDm);
- Share of coal in total assets;
- Change in SRI inflows;
- CO2 emissions (tonnes of CO2 eq.) per employee;
- Beneficiaries of the financial education program;
- Participation in development programmes open to all on a voluntary basis;
- Talent attrition;
- Women in senior executives positions;
- Staff trained in financial crime, money laundering, corruption and tax evasion;
- Significant security incidents over the last 12 months;
- Suppliers who signed the Code of Conduct when renewing their contracts;
- Change in the number of customer complaints compared with 2019;
- Level of NPS on remote channels;
- Complaints from retail customers;
- Results of customer surveys for Private Banking and Commercial Banking;
- Transactions led by HSBC Continental Europe;
- Amount of green bond issues for the Ile-de-France region;
- Amount of green bond subscriptions in the bond portfolio;
- Loans linked to ESG criteria for Michelin and Edenred;
- Net new money in responsible investment funds (EURm);
- Waste production;
- Paper consumption;
- Employees involved in tutoring programmes;
- Personalised mailings to customers identified as being in fragile situations;
- Women recruited on permanent contracts;
- Employees invited to the Explore programme;
- Employees with disabilities;
- Monthly transactions analysed to detect signs of money laundering, tax evasion and non-compliance with sanctions;
- Alerts received.

Qualitative information (measures and outcomes):

- Overall satisfaction rating of CMB customers;
- Deployment of a platform where customers can rate HSBC;
- Organisation of several "ESG" conference calls;
- Signing of a charter aimed at improving travel conditions on Paris public transport by reducing rush hour travel, "*Charte d'engagements réciproques pour le lissage des heures de pointe*";
- The HSBC Foundation for Education becoming a member of the IEFP, a French financial education organisation;
- Annual completion of succession plans for roles considered as key;
- Implementation by tutors of remote tutoring for young people;
- New Group agreement on remote working;
- Update of the annual training on financial crime, money laundering, corruption and tax evasion;
- Strengthening of technical resources for cybersecurity;
- Updates to ESG and the UK Modern Slavery Act ("MSA") statements.

France 'Duty of Care' act

Implementation of HSBC Continental Europe's Duty of Care Plan

HSBC Continental Europe has implemented a Duty of Care Plan in accordance with France's act no. 2017-399 of 27 March 2017 on the duty of care of parent companies and ordering companies.

HSBC Continental Europe's Duty of Care Plan follows the framework defined by HSBC. Commitments have been made and rules and procedures adopted at the HSBC Group level* to mitigate risks and prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment. The framework applies to all HSBC Group companies worldwide, including HSBC Continental Europe and its consolidated subsidiaries.

The Duty of Care Plan is implemented and monitored by a committee that meets twice yearly and consists of members of HSBC Continental Europe's Legal Affairs Department, Regulatory Compliance Department, Human Resources Department, Purchasing Department, Operational Risks Department and Sustainability Department and is headed by HSBC Continental Europe's Chief Risk Officer.

* *These statements and policies can be viewed on the 'Our Approach / ESG reporting and policies' page of the Group website. https://www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies*

Identification of risks relating to the Duty of Care

Scope of application

The Duty of Care Plan's geographical scope of application consists of HSBC Continental Europe including its international branches.

Within that geographical scope, the Duty of Care Plan covers risks relating to HSBC Continental Europe's employees and banking activities, as well as suppliers and subcontractors.

Identification and definition of risks relating to the Duty of Care

Occupational health and safety

As stated in its Health & Safety Policy* document, HSBC, as an employer, must provide a healthy, respectful working environment, as well as protecting and ensuring the physical safety of its employees at their workplace or when travelling for business purposes.

Respect for human rights

HSBC defines its approach to human rights in its 'Statement on Human Rights', which is based on various international texts including the UN's International Bill of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

As part of its approach to human rights, HSBC ensures that its employees, along with the employees of its suppliers and clients, are treated without discrimination or harassment because of their religion, social background, ethnicity, gender, age, disability, sexual orientation, marital status, pregnancy or involvement in charitable or union activities where authorised by national law, in both its professional relationships and employment practices.

HSBC is also committed to combating all forms of slavery, forced and compulsory labour, human trafficking and child labour, as stated in its Modern Slavery Act*. As regards labour standards, HSBC takes care to comply with local regulations and industry practices in terms of wages, working hours, freedom of association and the right to organise, disciplinary practices and conflict resolution procedures.

Environmental protection

HSBC prevents, mitigates and controls its material impacts on the environment and health in accordance with its Environmental Policy*. This includes complying with regulations concerning waste management, handling of hazardous materials and sourcing of raw materials. It pays particular attention to risks relating to climate change, which is defined as an urgent and potentially irreversible threat in HSBC's Statement on Climate Change*.

* *These statements and policies can be viewed on the 'Our Approach / ESG reporting and policies' page of the Group website. https://www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies*

Risk mapping and assessment procedures

Risks specific to the Duty of Care are mapped on the basis of the library of risks and controls used within HSBC. The risks related to the Duty of Care are contained in the map of risks assessed by business lines and functions, which state all the risks to which they are exposed and key controls to mitigate them.

The risk map and permanent control system are updated on an ongoing basis, based on the results of controls carried out by operational staff, lines of business and functions risk management teams ('BRCM/CCO'), Insurance teams, the conclusions of reports prepared by periodic control or by third parties (including regulators), internal or external incidents and whenever a material change takes place (requiring a review of the current risk assessment and the related control).

In 2020, the control system used within business lines and functions did not identify any critical failures connected with the Duty of Care.

Plan to prevent risks related to suppliers and subcontractors

As regards monitoring suppliers and subcontractors, HSBC regularly updates its Ethical and Environmental Code of Conduct for Suppliers of Goods and Services in line with new developments. Since March 2017, when forming new contracts or renewing existing ones, HSBC Continental Europe's suppliers are required to accept these principles by signing the code of conduct. By signing the document, the supplier confirms that it respects fundamental laws on human rights, health and safety and environmental protection. As of 31 December 2020, 98 per cent of HSBC's Continental Europe's suppliers had signed the Code of Conduct.

HSBC Continental Europe is particularly careful regarding its strategic suppliers that represent an annual commitment of over USD 500 million. HSBC works with Sedex to assess ethical and environmental risks. Sedex considers the risks associated with each supplier as a function of its location, its regions of production, its business sectors and the responses to a self-assessment questionnaire designed to identify the risks associated with workers' rights, health and safety, the environment and business ethics. This process produces a risk rating. If a supplier has a 'high-risk' rating, the information is passed to the relevant purchasing staff member so that he/she can decide whether to continue or discontinue the business relationship between HSBC Continental Europe and that supplier. HSBC Continental Europe has not identified any supplier exposed to high risk to date.

Plan to prevent risks relating to the Bank's activities

Regarding the impact of bank financing on potential breaches of human rights and environmental protection, the sustainability risk management policy adopted by HSBC for more than 15 years provides a solid risk management framework. An annual review is carried out regarding Global Banking and Markets and Commercial Banking clients operating in sectors covered by the Group's sector policies, and all transactions in these sectors are also reviewed. HSBC's sector policies cover agricultural commodities, chemicals, defence, energy, forestry, mining and metals, World Heritage Sites and Ramsar wetlands*. HSBC regularly reviews and refines these policies, including through constructive dialogue with NGOs and action groups, alongside which it regularly addresses matters of common interest. HSBC has applied the Equator Principles since they were first developed in 2003, including the latest version ('EP3') since 2014. In addition, regarding six particularly carbon-intensive sectors (oil and gas, energy, construction, chemicals, automotive, mining and metals), HSBC has developed a method to assess the climate strategies put in place by its business clients in order to oversee the impact of its financing more effectively.

For more details, see the 'Managing the environmental risks related to banking activity' section on page 56.

Internal Whistleblowing system

HSBC strives to create a working environment in which employees feel free to share their concerns. Aware that certain circumstances require special discretion, it simplified its whistleblowing system in 2015 by creating "HSBC Confidential". The arrangements are open to all employees of HSBC and other stakeholders. The arrangements can be used anonymously by the whistleblower and are accessible, at any time. Enhancements to the channel in December 2020 mean the majority of concerns are now raised through an independent third party offering 24/7 hotlines and a web portal in multiple languages, including French and English. The arrangements are supervised by an independent team within the Compliance function. It can be used to report, in particular, facts or behaviour constituting a serious violation of human rights and fundamental freedoms, the health and safety of persons as well as the environment resulting from the activities of HSBC Continental Europe as well as those of their subcontractors or suppliers, in accordance with Law N° 2017-399 of 27 March 2017 relating to the duty of care of parent companies and ordering companies. Investigations are conducted confidentially, in depth and independently by investigators who are trained and made aware of the legislation / regulations applicable to whistleblowing arrangements.

Alerts received in France are fully managed in France (i.) while alerts sent by employees in HSBC Continental Europe branches (ii.) are received and fully processed by Group in accordance with the processes put in place by Group (with the exception of the Polish branch which receives its alerts locally, as France). As the French alerts and the alerts from HSBC Continental Europe branches do not follow the same process, the figures are therefore reported separately in this report.

Arrangements in place within HSBC Continental Europe in France and figures

In accordance with Law N° 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies, the whistleblowing arrangements can be used to report facts or behaviour constituting a serious violation towards human rights and fundamental freedoms, human health and safety and the environment resulting from the activities of HSBC Continental Europe as well as those of their subcontractors or suppliers.

HSBC Confidential in France is placed under the supervision of the Audit Committee. Investigations are conducted, in a confidential, in-depth and independent manner by investigators from different departments, mainly Compliance and Human Resources. Controls are in place relating to maintaining confidentiality and to protect whistleblowers from the risk of retaliation. Periodic communication and awareness initiatives for employees are intended to encourage 'Speak-up culture' within HSBC.

32 alerts were received and accepted into the HSBC Confidential channel in France in 2020, down 41 per cent compared to 2019. The main theme emerging from the admitted alerts was related to human behaviour in the work environment.

Arrangements in place in the HSBC Continental Europe branches and figures

Alerts sent by employees in HSBC Continental Europe branches are received and fully processed by the Group (with the exception of the Polish branch which receives its alerts locally as France). The Whistleblowing oversight team in France within HSBC Continental Europe Compliance monitors activities relating to the whistleblowing arrangements in the HSBC Continental Europe branches.

In HSBC Continental Europe branches, 6 alerts were received in 2020. All of these alerts related to poor human behaviour in the work environment (HR cases).

* *These statements and policies can be viewed on the 'Our Approach/ ESG reporting and policies' page of the Group website. https://www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies*

System for monitoring measures taken

HSBC Continental Europe has adopted a process for managing inappropriate individual breaches. The process aims to identify all situations in which rules and procedures are not complied with, and to ensure that cases are treated consistently.

The breaches that HSBC Continental Europe seeks to identify include cases of money laundering – which may involve activities such as terrorist financing, human trafficking or slavery – as well as cases where the physical safety of staff members is jeopardised and cases of harassment.

To deal with such situations, each of HSBC Continental Europe's business lines and main functions hold breach committee meetings. For smaller functions and branches, ad-hoc committee meetings are held if a breach occurs. The aim of these meetings is to assess the risk level, the circumstances in which the breach occurred and the level of the breach. If appropriate, sanctions are applied; remedial action may also be taken to prevent the situation from recurring. Monitoring indicators have also been adopted.

In 2020, five breaches were dealt with in relation to the Duty of Care Act.

We investigate credible allegations of human rights violations as they are reported to us via engagement with stakeholders. They are then raised directly with the client company by the Relationship Manager and, if necessary, escalated to Senior Management both within HSBC and at the client company, up to the senior executive level. Where required, individual customer relationships are referred to and reviewed by Reputational Risk and Client Selection Committees on a case-by-case basis. These reviews may decide to restrict or end a customer relationship where it is unwilling or unable to meet HSBC's standards, including those relating to modern slavery and human trafficking.

Risk

All Pillar 3 and regulatory documentation is available on the Internet websites www.hsbc.com and www.hsbc.fr.

Key Highlights

Principal Regulatory Ratios

	At	
	31 Dec 2020	31 Dec 2019
	%	%
Capital Ratios		
Common equity tier 1	**12.6**	13.5
Total tier 1	**14.2**	15.0
Total capital	**17.3**	16.9
Leverage Ratio	**4.2**	3.7
Liquidity Ratios		
Liquidity Coverage Ratio	**143**	152
Net Stable Funding Ratio[1]	**136**	127

1 *Computed in respect of CRR II guidelines.*

Risk-Weighted Assets – by Risk Type

	RWAs		Capital required	
	2020	2019	**2020**	2019
	€m	€m	**€m**	€m
Credit Risk	**36,431**	36,426	**2,914**	2,914
Counterparty Credit Risk	**3,736**	3,982	**298**	319
Market Risk	**2,663**	4,494	**213**	359
Operational Risk	**3,283**	3,149	**263**	252
Total Risk-Weighted Assets	**46,113**	48,051	**3,688**	3,844

Loan Impairment Charges / Impaired Loans

	At	
	31 Dec 2020	31 Dec 2019
(in million of euros / %)	**€m**	€m
Total Gross loans	**63,827**	64,436
Total Impaired loans (B)[1]	**1,392**	1,239
Impaired loans %	**2.18%**	1.92%
Total loan impairment charge at 31 December	**(289)**	(128)
Impairment allowances (A)[1]	**(673)**	(589)
Impairment ratio: A/B	**48.35%**	47.54%

1 *Including only stage 3.*

Our risk appetite

We have maintained a consistent risk profile throughout our history. This is central to our business and strategy. We recognise the importance of a strong culture, which refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board. We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate related risks, both physical and transition, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

Financial position

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

Operating model

- Returns generated in line with risk taken.
- Sustainable and diversified earnings mix, delivering consistent return for shareholders.

Business practice

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

Enterprise-wide application

HSBC Continental Europe's risk appetite is set out in the Risk Appetite Statement, which describes the types and levels of risk that HSBC Continental Europe is prepared to accept in executing its strategy. The HSBC Continental Europe's Risk Appetite Statement covers the following key areas of risk, with detailed measures for each category: Financial Crime Compliance, Regulatory Compliance, Operational Risk, Reputational Risk, Resilience Risk, Asset Management, Insurance, People Risk, Cost of Risk, Risk Diversification, Market Risk, RWAs, Capital (including leverage ratio), Liquidity and Funding, Interest Rate Risk on the banking book portfolio, Earnings and Costs. Quantitative statements and qualitative metrics are assigned to the above risk categories. Measurement against the metrics:

- guides underlying business activity, ensuring it is aligned to risk appetite statements;
- informs risk-adjusted return;
- enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identifies business decisions needed to mitigate risk.

The Risk Appetite Statement is approved by the HSBC Continental Europe Board following advice from the Risk Committee, and is a key component of the risk management framework. It is central to the annual planning process and seeks to be aligned with the strategy.

The business performance against these risk appetite metrics is reviewed on a monthly basis in the Risk Management Meeting and quarterly in the Risk Committee and Board. Details of metrics that have fallen outside of the appetite/tolerance are provided, along with remediating actions.

Areas of special interest

The United Kingdom's withdrawal from the European Union

The United Kingdom left the European Union on 31 January 2020 at midnight following the withdrawal agreement ratification, and entered a transition period until 31 December 2020. A Trade and Cooperation Agreement between the European Union and the United Kingdom was agreed on 24 December 2020, and ratified by the British Parliament on 30 December 2020. Prior to European Parliament ratification (expected in early 2021), the Trade and Cooperation Agreement provisionally comes into effect from 1 January 2021 onwards. The deal mainly focused on goods and services but also covered a wide range of other areas. However, it included limited elements on financial services. This creates market volatility and economic risk, particularly in the United Kingdom. HSBC Group's global presence and diversified client base should help to mitigate the impact of the United Kingdom's withdrawal from the European Union. HSBC Group's existing footprint in the European Union, and in particular its subsidiary in France, provides a strong foundation for us to build upon.

Mitigating actions

HSBC Group has put in place a robust contingency plan. HSBC Group's programme has now been largely completed (see also page 9 – Impact of United Kingdom's withdrawal from the European Union on HSBC Continental Europe), but there remain execution risks, many of them linked to the uncertain outcome of negotiations and potentially tight timelines to implement further changes to our United Kingdom and European operating models. Risks are monitored continuously, with vulnerable industry sectors reviewed by management to determine if adjustments to HSBC Group and HSBC Continental Europe's risk policy or appetite are required. The impacts of Covid-19 outbreak from a planning perspective have been mostly mitigated.

As part of HSBC Group's stress testing programme, a number of internal macroeconomic and event-driven scenarios were considered to assess HSBC Group's planning with respect to the impact of the United Kingdom's withdrawal from the European Union. The results confirmed that HSBC Group is well positioned in the event of potential shocks.

This risk has diminished since 31 December 2019.

IBOR transition

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets.

In response, regulators and central banks in various jurisdictions have convened national working groups ('NWGs') to identify replacement rates for these interbank offer rates ('IBORs') and, where appropriate, to facilitate an orderly transition to these rates.

Following the announcement by the UK's Financial Conduct Authority in July 2017 that it will no longer persuade or require banks to submit rates for LIBOR after 2021, the NWGs for the affected currencies were tasked with facilitating an orderly transition of the relevant LIBORs to their chosen replacement rates. The EUR NWG was also responsible for facilitating an orderly transition of the Euro Overnight Index Average ('EONIA') to the Euro Short-Term Rate ('€STR') as a result of the determination that EONIA could not, as it was computed before 2nd October 2019, be made to comply with the European Benchmark Regulation ('BMR') and could therefore no longer be used beyond 2021.

HSBC established the IBOR transition programme with the objective of facilitating an orderly transition from LIBOR and EONIA for HSBC and its clients. This global programme oversees the transition effected by each of the global businesses and is led by the Group Chief Risk Officer.

In HSBC Continental Europe, the programme is led by the HSBC Continental Europe Chief Risk Officer. Substantial change has been undertaken to develop products that reference the replacement rates and enable the transition of legacy EONIA/ LIBOR contracts, which exposes HSBC to material financial and non-financial risks.

Throughout 2020 the programme has continued to develop products that reference the replacement near Risk Free Rates ('nRFR'), including the supporting processes and systems, and to make them available to customers. This included meeting regulatory deadlines for loan product readiness and the transition to nRFR discounting by clearing houses. A structured development plan had to be designed given the widespread use of LIBOR and EONIA in a wide range of products, systems and processes across each of the four global businesses. The associated operational risk is closely monitored by the programme. Moreover, the material change in the interest computation methodology for loans when moving from LIBORs to nRFRs and the interpretation of nRFR loan market conventions are a source of conduct risk, that HSBC addresses through specific client communication processes.

EONIA is now off sale for almost all products in HSBC Continental Europe and has also been removed from our internal funding processes; only new EONIA swaps are still being traded, as the liquidity of the €STR swaps market has not taken off yet. LIBOR sales continue as long as the equivalent products in nRFR are not available and/or the liquidity is not present in the market. Selling such products referring indices that will be discontinued is also a source of conduct risk that HSBC mitigates notably through specific client information processes and following the industry groups' guidance on the enhancement of the legal documentation. It extends to the EURIBOR contracts; indeed, even if the EURIBOR is not planned, for now, to be discontinued, the industry is working on developing robust fallback clauses for this index as required by the European Benchmark Regulation, which will have to be incorporated in EURIBOR new contracts and potentially also in some legacy contracts.

In addition to offering new alternative rate based products, the new product capabilities will also help enable the transition of outstanding LIBOR and EONIA products. HSBC has begun to engage clients to determine their ability to transition in line with the readiness of the alternative rate product availability.

Covid-19 may have affected the ability of clients to transition early and could result in compressed timelines for IBOR transition. Therefore, development and use of appropriate migration tools, and industry initiatives such as the ISDA protocol are necessary to enable a more ordered transition coupled with legislative approaches for the products which are structurally difficult to transition ('tough legacy'). Repapering and operational booking will be coordinated and driven by the client's willingness, with a defined commercial strategy in place for each global business. Dedicated teams are in place to support the client engagement and facilitate the transition, and specific training helps to further mitigate the conduct risk potentially generated by the legacy book transition.

Financial instruments impacted by IBOR reforms

Amendments to IFRSs issued in August 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform. Under these amendments, changes made to an amortised cost financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. HSBC has adopted the amendments from 1 January 2020.

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

	Eonia	USD Libor	GBP Libor	Others[1]	Total gross carrying value/ notional amount
	€m	€m	€m	€m	€m
At 31 Dec 2020					
Non-derivative financial assets[2]	**1**	**2,098**	**272**	**1**	**2,372**
Non-derivative financial liabilities[2]	**2**	**229**	**—**	**—**	**231**
Derivative notional contract amount	**192,127**	**332,644**	**45,180**	**45,827**	**615,778**

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

The amounts in the above table relate to HSBC Continental Europe's main operating entities[1] and provide an indication of the extent of the group's exposure to the Ibor benchmarks which are due to be replaced. Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date after 31 December 2021, the date by which Libor is expected to cease;
- are recognised on HSBC's consolidated balance sheet.

1 *Entities where we have material exposures impacted by Ibor reform in countries including France, the Netherlands, Spain and Ireland.*

The administrator of Libor, IBA, has announced a proposal to extend the publication date of most US dollar Libor tenors until

30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021. This proposal, if endorsed, would reduce the amounts presented in the above table as some financial instruments included will reach their contractual maturity date prior to 30 June 2023.

Covid-19

The Covid-19 outbreak has had, and continues to have, a material impact on businesses and on the economic environments in which HSBC Continental Europe operates. There are a number of factors associated with the outbreak and its impact on economies that have, or could have, a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as HSBC Continental Europe. The Covid-19 outbreak has caused disruption to HSBC Continental Europe's customers, suppliers and staff.

In many of the jurisdictions in which HSBC Continental Europe operates, notably in France, schemes have been initiated by national governments to provide financial support to parts of the economy most impacted by the Covid-19 outbreak.

The Covid-19 pandemic led this year, notably in Europe, to sudden episodes of recessions, which have been unprecedented in magnitude since World War II. During the second quarter of 2020, lockdowns of populations in many countries and the suspension of productive activities meant a historical trough for the concerned economies. From second quarter 2020, national fiscal authorities and the ECB have taken strong measures to support firms and employment, but also to ensure that the financing of the real economy did not face any issue. Extremely substantial public spending has been engaged, pushing fiscal deficit and the public debt ratio to record levels in some cases, while the ECB enhanced banks' liquidity and funding conditions ('TLTRO III') and strengthened its quantitative easing policy through the creation of a Pandemic Emergency Purchase Programme ('PEPP').

After an improvement in the health situation at the beginning of the summer in 2020, contributing to a very large rebound in the economic activity over the third quarter, the pandemic spread accelerated during the autumn across Europe, where growing restrictions limited people's mobility. New lockdowns have been implemented from October 2020, weighing on the domestic economic activity, in spite of fiscal supports sometimes increased compared to the packages decided during the spring.

All in all, although the economic outlook in Asia but also in the US finally looks less deteriorated than initially expected, 2021 may prove for Europe a year beginning with a lower than anticipated growth and with rising uncertainties about the recession-induced permanent scarring on medium term potential growth and on public finances, which have been durably affected in several countries. Indeed, despite a progressive recovery in global trade and in spite of bond yields having touched historically low levels for some sovereign borrowers, the reported increase in the household saving ratio and a deteriorated labour market in Europe have fueled fears that the level of activity reached at the end of 2019 may not be recorded again before 2022 on average. Admittedly, any success to manage the pandemic better than forecast thanks to vaccines would represent an upside risk to economic growth in the near term.

Given the impact of the Covid-19 and the confinement period, customers and Lines of Businesses faced new issues for which some current processes were not fit for purpose, taking into account that customers were sometimes facing difficulties to contact the bank in the usual manner and obviously to go to branches. In that context, HSBC Continental Europe has adapted its processes and controls as necessary to ensure seamless continuity in service where necessary.

In addition, a Global Covid-19 Working Group was in place in the first months of the crisis to coordinate, report and provide guidance on issues requiring global coverage or consistency in responding to the observed or potential impacts of the pandemic. This fed into the Major Incident Group meetings, which were held at high frequency during that period.

Since the end of the first lockdown, these exceptional crisis management measures have been gradually unwound or relaxed (e.g. less frequent meetings and reports). However, the Covid-19 pandemic and its consequences on the bank's operations and performance remain under priority monitoring.

The situation has been closely monitored at executive and Board level since the Covid-19 crisis burst in Europe, initially through daily or weekly meetings covering all risk areas (liquidity, capital, credit, operational).

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

Credit Risk

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

Credit Risk RWAs have increased as a result of the deferral of repayments, approval of waiver requests, additional financing requests, precautionary drawdown by companies of their revolving credit facilities and the downgrading of clients' risk rating.

Expected Credit Losses have increased significantly over the period, reflecting the deterioration of the overall credit worthiness of the portfolio, which consequently increases the ECL for Stage 1 & 2. Stage 3 impairments have also materially increased as some companies entered into default either through bankruptcy or as they engaged into financial restructuring.

Expected Credit Losses

In all of our markets, the Covid-19 outbreak has led to a weakening in GDP, a key input used for calculating expected credit losses ('ECL'), and there remains the risk of more adverse economic scenarios given its ongoing impact. Furthermore, ECL may also increase from parts of our business impacted by the disruption to supply chains. The impact will vary by sectors of the economy, with retail, tourism and the related sectors such as hospitality, as well as transportation, among those facing distress. The impact of the outbreak on the long-term prospects of businesses in these sectors is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges or operational losses. The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have materially impacted the performance of financial models. In particular, IFRS9 model performance has been dramatically impacted over the course of 2020 which has increased reliance on management judgment in determining the appropriate level of ECL estimates.

As a matter of fact, these models are driven by forecasts of economic factors such as GDP and unemployment, such that many of these models were not able to deliver reliable outputs given the dramatic volatility in these forecasts, many of which significantly exceeded observed historic extremes. There has also been an unprecedented response from governments to provide a variety of economic stimulus packages to support livelihoods and the highest hit business sectors which could not be predicted by models.

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

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

The key support provided by the IT infrastructure for home working has enabled teams to successfully adapt and maintain key deliverables during this challenging period. Working from home has arguably become the ‘new normal’. Our overall Video technology has performed well.

The main risks identified during the crisis have been actively monitored:

Operational Risk: The dependency on offshore locations, and our IT infrastructure is clear. The response from our offshore locations has been at the expected standards. In Q4-2020 we experienced a second wave of Covid-19 where no major issues had to be to be reported. Remote working is becoming more and more accepted by employees. As long as the Covid-19 situation remains we will keep the IT infrastructure and our protocols in place to be able to return to full home working if necessary.

Control Environment: Covid-19 has led to some exceptions to standard practices which have been validated by the relevant Risk stewards and recorded in a central register.

Coming challenges:

Define and implement new ways of working following the new norm post Covid-19. This will involve a mix of main office working, contingency site, and Working from Home (WFH). Return to workplace plans keep being adapted to follow the latest development of the pandemic and the government responses.

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

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

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

People risk

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

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

All elements which lead to an increase of psycho social risks overall.

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

- Regular written communications, including authorities’ messages and guidelines, sharing best practices and encouraging employees to keep in touch with their colleagues and the company overall sent to employees through different channels,
- Specific tool kit trainings on resilience, remotely management to support managers and employees in the current difficult context,
- Awareness of HR teams and Contact center to answer employees’ queries,
- Detailed daily reporting on Covid-19 cases in order to be informed on the situation evolution within the company.

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

- Progressive return to workplace with a maximum employee occupancy on site for each three phases associated with remote working maintained as much as possible and flexibility on arrival/departure hours,
- Sanitary measures such as hydro-alcoholic gel available at entrance building/floor, enhanced daily desk cleaning, and masks provided to employees,
- Social distancing organised through floor markings, lifts with limited occupancy, serving packed lunch in company restaurant,
- Development workshops to get employees feedbacks on the crisis and support from in-house Health Centre.

Model Risk

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

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

Amongst the main impacted models are the Credit Risk models used for capital requirements and accounting provisions: they are based on lagged data and on past patterns which may not reflect the actual economic situation of borrowers or the prospects they face for the future. In particular, they may not properly take into account the benefit brought by extremely substantial government interventions in the economy. Likewise, in Market Risk, value-at-risk ('VaR') models are based on an assumption of stable market conditions and therefore failed to immediately adjust to the very high price volatility observed since March 2020, resulting in particular in an abnormal concentration of daily losses higher than VaR in March.

The bank is dealing with this situation by a strong focus on the performance of the models, and by instructing model users to apply professional judgement when considering model output, using overlays when there is a suspicion that the model is relying too much on outdated assumptions or data. Some tactical model redevelopments are being considered, in particular in the Credit Risk space, but on the longer term, models are expected to progressively recover their predictive power as the pace of changes slows down, and many models are already incorporating recent crisis-related data in their calibrations.

Market risk

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

The announcement around vaccination readiness and efficiency led to a new rally on markets at year end.

However, the sanitary situation was still concerning with the winter period in western countries and the lockdown measures still impacting many economies despite being less strict in general than in spring.

The market turmoil caused by the Covid-19 outbreak saw asset price dispersion and bid-offer spreads significantly increase, leading notably to a material increase of bid-offers charge in 1Q20 when compared with 4Q19. Since the end of the second quarter of 2020 the charge has materially reduced due to bid offer spreads and price dispersion reductions.

We also noticed an increase in our Credit Valuation Adjustment ('CVA') charge because of the widening of our counterparties credit spread.

Both Credit Valuation adjustment charges and bid offer reserve has continued to decrease of the course of second semester of 2020.

Despite the higher volatility experienced by the markets in this period, we did not observe any major weakness in HSBC Continental Europe's fair valuation models and concluded that they operated satisfactorily.

Insurance

The Covid-19 crisis has entailed one of the worst drops on financial markets ever seen. The major impact of this adverse evolution was on the company's solvency ratio, which dropped dramatically in March.

This drop was due to the combination of the degradation of the equity markets, the increasing volatility of the markets and the strong decrease in rates. It resulted in a significant increase of equity risk capital demand and a reduction in economic own funds. However, it should be noted that a prudent hedging strategy had been set up before the crisis, which contained the impact of the drop.

Thanks to the recovery of the markets and to the measures implemented to improve the solvency ratio, this ratio increased since then up to levels in line with the company's objective.

The recovery of the market offered a good opportunity to adjust the hedging strategy of the company. After this adjustment the portfolio of the company is efficiently protected against a new drop in the market.

The second major impact of the crisis, for the medium term, is the likelihood of several rating downgrades among the bond issuers in the portfolio of assets held by the insurance company. This will both impact the bond market valuations and the spread risk capital demand as its calculation method is directly proportional to the bond ranking. The default risk has also increased.

Nonetheless, the strong monitoring of the bond portfolio and restrictive choice among the bonds universe (through issuers selection, strong average rating of the bond portfolio (A/A-), and low average duration) are expected to mitigate this risk effectively.

The pandemic had also an impact on the mortality rate of the persons insured by the company. This impact was very limited on the holders of the protection products (term life insurance or creditor insurance) in relation with their average age of c. 47. This average is higher for the wealth clients of the company (c. 67 years) and as a consequence the pandemic entailed some rise in the mortality rate for these clients.

Capital and Liquidity

The Covid-19 crisis resulted in HSBC Continental Europe facing material draw down from customers on committed facilities. The situation has normalised since then and outlook on liquidity and funding improved which was in particular driven by the participation to LTRO and TLTRO III. Customers deposits have grown during the crisis in CMB and WPB. Several measures were implemented (see section on regulatory developments on pages 3 and 4 in the HSBC Continental Europe Pillar 3 document) by national authorities and regulators to allow banks to support the European economies from a capital and leverage perspective.

Conclusion

It remains unclear how the Covid-19 situation will evolve through 2021 and we continue to monitor the situation closely. Given the prolonged nature of the current crisis, additional mitigating actions may be required.

Top and emerging risks

We use a top and emerging risks process to provide a forward looking view of issues with the potential to threaten the execution of our strategy or operations over the medium to long term.

We proactively assess the internal and external risk environment updating our top and emerging risks as necessary.

We define a 'top risk' as a thematic issue that may form and crystallise in between six months and one year, and that has the potential to materially affect the Group's financial results, reputation or business model. It may arise across any combination of risk types or global businesses. The impact may be well understood by senior management and some mitigating actions may already be in place.

An 'emerging risk' is a thematic issue with large unknown components that may form and crystallise beyond a one-year time horizon.

If it were to materialise, it could have a material effect on the Group's long-term strategy, profitability and/or reputation. Existing mitigation plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage.

During 2020, we made certain changes in the list of our top and emerging risks, reflecting the evolution of the issues facing HSBC Continental Europe. Our current top and emerging risks, as assessed by us, are as follows:

Externally Driven

Macroeconomic risks

The Covid-19 pandemic led this year, notably in Europe, to sudden episodes of recessions, which have been unprecedented in magnitude since World War II. During the second quarter of 2020, lockdowns of populations in many countries and the suspension of productive activities meant a historical trough for the concerned economies. However, from March, national fiscal authorities and the ECB have taken strong measures to support firms and employment, but also to ensure that the financing of the real economy did not face any issue. Extremely substantial public spending has been engaged, pushing fiscal deficit and the public debt ratio to record levels in some cases, while the ECB enhanced banks' liquidity and funding conditions ('TLTRO III') and strengthened its quantitative easing policy through the creation of a Pandemic Emergency Purchase Programme ('PEPP').

After an improvement in the health situation at the beginning of the summer in 2020, contributing to a very large rebound in the economic activity over the third quarter, the pandemic spread accelerated during the autumn across Europe, where growing restrictions limited people's mobility. New lockdowns have been implemented from October 2020, weighing on the domestic economic activity, in spite of fiscal supports sometimes increased compared to the packages decided during the spring.

All in all, although the economic outlook in Asia but also in the US finally looks less deteriorated than initially expected, 2021 may prove for Europe a year beginning with a lower than anticipated growth and with rising uncertainties about the recession-induced permanent scarring on medium term potential growth and on public finances, which have been durably affected in several countries. Indeed, despite a progressive recovery in global trade and in spite of bond yields having touched historically low levels for some sovereign borrowers, the reported increase in the household saving ratio and a deteriorated labour market in Europe have fueled fears that the level of activity reached at the end of 2019 may not be recorded again before 2022 on average. Admittedly, any success to manage the pandemic better than forecast thanks to vaccines would represent an upside risk to economic growth in the near term.

Mitigating actions

Faced with these challenges, HSBC Continental Europe has maintained its efforts to adapt itself to this new environment in order to offset its impact on its profitability and reinforce the sustainability of its economic model.

This adaptation requires maintaining a very strict cost control, while carrying-on with necessary modernisation efforts.

In Retail banking, the transformation of the distribution model in 2018, with the specialisation of the salesforce, combined with an accelerating modernisation of internet banking services, turned out to be particularly relevant : lockdowns and travel restrictions have led an increasing proportion of customers to use them and to have recourse to the central teams in charge of client relationship under the remote banking model.

New processes for the secure exchange of documents have been made available to help clients to cope with these exceptional circumstances, and these will become permanent. Beside, the bank has supported its customers through this difficult period, in particular by granting loan repayment holidays depending on their individual situation and, for those eligible, by participating in the support schemes organised by the French state. So far, the consequences of the crisis on the bank's retail loan portfolio have been rather moderate. In parallel, the bank has carried on with its assessment of the various strategic options available to it regarding this business.

Regarding its Global Banking and Markets business, HSBC Continental Europe has continued to on-board European companies, in particular those that were banking with its UK parent, HSBC Bank plc, so that service continuity was ensured for all of them ahead of the end of the transition period. At the same time, the bank is now focusing its organic growth on clients and products that are meeting in full the strategic orientations of the HSBC Group, which is to reinforce its position as a dominant international bank in Europe while reducing capital consumption and costs there for redeployment within higher growth geographies. Besides, in consideration of persistent imbalances in economic situations across countries in the EU and of the uncertainties generated by United Kingdom's withdrawal from the European Union, HSBC Continental Europe continues to maintain limited market risk positions in its trading book portfolio. These are subject to frequent stress tests based on a number of different scenarios which the bank modifies according to the observed trends and possible evolutions of the economic environment. Also, risk calculations and the limits set to the 'front office' teams take into account the relative illiquidity of certain markets.

The Commercial Banking network has mobilised itself to support its clients exposed to the impacts of the crisis, both under government-driven schemes (State-Guaranteed loans in France or their equivalent in other European countries) and under loan moratoria agreed across the French banking industry (quasi-systematic six month loan repayment deferrals granted to SMEs in the second quarter), and also by granting new financing and/or additional flexibilitiy on a case by case basis. While doing so, it has also adapted its organization and its resources to reinforce the monitoring of its corporate clients' situation and address problems at an early stage.

As concerns industry sector risks, HSBC Continental Europe has long established procedures and a control framework which includes the review, in detail, of all significant exposures to customers operating in a higher risk sector, the establishment of sector 'Caps' and a programme of stress tests designed to regularly evaluate the effect of an exceptional deterioration occurring in certain sectors which the bank is particularly exposed to. The lending guidelines are updated as necessary in the event of any material change observed in particular sectors as well as in consideration of any conclusions that could be drawn from these 'stress tests'. Bank wide stress tests are undertaken annually to measure the impact of a major economic downturn on the bank's results and its balance sheet.

In terms of life insurance activities, HSBC Continental Europe continues to apply a long term management strategy of its assets and hedging which have the effect of mitigating the impact of the decline in yields. It is worth noting in this respect that HSBC Assurances Vie (France) is the only insurance company in France that integrates in its profit and loss account the variations in Present Value In Force ('PVIF'), which is the net present value of the profits expected to be generated by its current portfolio of investment assets. In order to preserve its solvency ratio, HSBC Assurances Vie (France) has also made various adjustments, including on the sharing of distribution fees with its distribution channel, namely the HSBC Continental Europe branch network.

This risk has increased since 31 December 2019.

Competition risk

HSBC Continental Europe operates in a highly competitive industry that continues to undergo significant change as a result of financial regulatory reforms as well as increased public scrutiny stemming from the financial crisis and continued challenging economic conditions, further enhanced by the Covid-19 sanitary crisis.

The European banking sector is under strain

European banks are encountering higher credit losses in both corporate and retail portfolios given the current external environment, in addition to a slowing of new business and compressed margins. Most European banks are expected to record lower revenues as net interest margins and fee income go into reverse at the same time in retail and commercial banking. Other product areas such as payments, trade finance, and consumer credit, are trending downward as economic activity stalls. While corporate and investment banking divisions could experience countercyclical revenues driven by market volatility and immediate financing demand from corporates, these benefits could be short-lived. The combination of credit losses and weaker revenues will impact earnings and balance sheets, which, combined, with risk-weighted asset inflation, will drive capital ratios and average returns on equity down. Given that industry growth is expected to be low, improved returns will need to come from reducing cost or capital intensity, while meeting regulatory and market requirements in the payment (European Payment Services Directive 'PSD2', Instant Payment, Near Field Communication payment, blockchain) and data management landscape (General Data Protection Regulation 'GDPR', Open Banking, Artificial Intelligence).

The European banking sector is disrupted by new entrants

The banking industry is facing continued competition on its traditional banking products and services following the arrival of new entrants such as mobile banks, tech companies and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists'). These potential competitors are capable of capturing part of the banking sector's value chain' by offering to their customers relatively more flexible and reactive services, leveraging new technologies (e.g. automated customer risk assessment using algorithms), attractive pricing, or more responsive online banking services via smartphones or tablets. The Covid-19 lockdowns have further triggered the shift to digital and mobile banking in all European countries. Neobanks have also demonstrated that simple products built on new technology platforms with a digital-first approach can operate at a fraction of the marginal and unit cost of the incumbent banks. Traditional players may be constrained by outdated platforms in an environment where customers expect exemplary service and are trying to respond through disciplined investments as well as partnerships, acquisitions, or the development of incubators and Labs. It is to be noted that, while the profitability of the whole banking sector will be impacted by the Covid-19 crisis, smaller players such as neobanks or new non-banking entrants could be further weakened as they have not weathered economic distress or been subject to the same level of regulatory oversight and preparedness measures.

The enhanced pressure on fundraising and cash management could also limit their capacity to expand and/or demonstrate material and sustainable progress on their path to sustainability.

The European banking sector is disrupted by regulation

Payments

The adoption and the extension of the legal perimeter of the European payment services 'PSD2' regulation has opened up access to the bank's electronic payment platforms to two new types of entrants such as Account Information Service Providers ('AISP') and Payment Initiation Service Providers ('PISP'). AISP's are aggregators of data, who can process and centralise information relating to accounts held by the same account holder across different banks, whereas PISP's, receive and process payment requests for clients once authorised by them to do so. Alongside PSD2, Strong Consumer Authentication ('SCA') standards will be enforced by most of the European Union's country members by 1 January 2021, and in France by 1 April 2021. In addition, banks have had – or will have – to quickly adapt their processes and their IT infrastructure to be able to propose instant payment to their clients. Lastly, the payments landscape is also evolving with the increasing use of blockchain representing a strong risk of disintermediation despite being in its early stages.

Data Management

GDPR, Open Banking and Artificial Intelligence will materially change the way banks will use customer data. Potential new entrants with strong technology expertise are able to better use data through Application Programming Interfaces ('APIs'): GAFAs (Google, Apple, Facebook and Amazon), payment services, and tech start-ups are already offering real personal services by Big Data analysis.

One of the major risks for traditional banks, who can be less flexible than the new entrants, is to progressively lose part of their business as customers increasingly expect exemplary services from their bank.

Mitigating actions

HSBC Group is fully aware of the technology innovations mentioned above and maintains high level contacts with the 'Fintech ecosystem'. The PSD2 project is well structured in France and Europe to ensure that the bank complies with its obligations and is also looking at key business opportunities. GDPR is now applied in a structured manner within HSBC Continental Europe. HSBC Continental Europe has implemented Instant Payment and enhanced multichannel and digital features for its retail customers.

This risk is stable versus 31 December 2019.

Cyber threats and unauthorised access to systems

The threat from cyber-attacks remains a concern for our organisation, and failure to protect our operations from internet crime or cyber attacks may result in financial loss, business disruption and/or loss of customer services and data or other sensitive information that could undermine our reputation and our ability to attract and keep customers. Ransomware and Distributed Denial of Service ('DDOS') attacks are an increasingly dominant threat across the industry.

Although the bank was not subjected directly to ransomware attacks in 2020, attacks on third parties and customers increased. The phishing technique remains the most effective way to spread malware and other viruses.

Mitigating actions

The security of our information and technology infrastructure is crucial for maintaining our banking applications, processes, protecting our customers and the HSBC brand. We continue to strengthen and significantly invest in our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber attacks. More specifically, many tests are conducted internally to raise the awareness of the HSBC employees of the risk of phishing.

Cyber risk is a top priority of the Board and is regularly reported to ensure appropriate visibility, governance and executive support for our ongoing cyber security programme.

This risk is stable versus 31 December 2019.

Tax transparency risks

In common with all companies, HSBC Continental Europe is potentially exposed to the risk that tax rules could be misinterpreted or incorrect application of the increasingly complex tax rules that apply. In particular, the tax authorities are increasingly attentive to the transfer pricing that apply between member companies of large international groups such as HSBC.

HSBC Continental Europe runs the risk of a tax adjustment or penalties in the event that the bank does not respect these rules and in particular the requirement to transact with its parent company at normal commercial conditions.

Moreover, certain clients of HSBC Continental Europe could use some of its services with the objective of tax evasion which could expose the bank to charges of collusion and which, if confirmed, could also lead to severe financial, legal and reputational risks.

Mitigating actions

HSBC Continental Europe Tax department works closely with other central Functions and the various Global Businesses as well as with other Group entities to verify that the transactions undertaken for the bank's own account or by our clients are consistent with the spirit and letter of the tax laws (tax transparency principles). Furthermore, it also monitors that the transfer pricing conditions applied by other Group entities is properly justified and documented.

This risk has remained stable versus 31 December 2019.

Regulatory Compliance including Conduct

The Industry continues to operate under an increasing focus of regulators on Conduct matters, such as the fair treatment of customers with specific attention paid on the protection of fragile customers and compliance with conduct rules in financial markets (including the market abuse framework).

The *ACPR* also mentioned it was paying particular attention to digital initiatives, artificial intelligence, FinTech developments and e-activities, reminding banks that these changes should aim at the clients' interest and allow enhanced traceability and control.

The green finance and crypto-currencies have also been mentioned as emerging issues. The French law on energy transition and green finance will have to be reviewed following European initiatives, and preventing green-washing and pushing for a better harmonization of methodologies to define what green really is have been a big stake for the AMF. Regarding crypto-currencies, the French regulators are calling for a European initiative.

Mitigating actions

In line with Group initiatives and the Global Conduct Policy, HSBC Continental Europe has implemented the Conduct framework: all Lines of Business have taken full ownership of Conduct risk, like the other risks.

Regulatory Compliance oversees and provides advice to the lines of Business in their action plans, with a focus on employee training, to address any concern or possible delay in the application of the regulatory requirements. It engages with internal and external stakeholders, including Regulators, as part of its role as Risk Stewards in achieving HSBC's strategic priorities.

This risk has remained stable versus 31 December 2019.

Financial crime risks

HSBC has no appetite to see its products being used to transform the profits of crime and corruption into legitimate assets, to finance terrorism, transfer money to sanctioned countries or individuals or facilitate tax evasion. The risk of financial crime remains a top risk for HSBC which continuously reinforces its framework to detect and deter suspicious activities.

Mitigating actions

The framework is built to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice. These include those relating to financial crime compliance such as Anti-Money Laundering ('AML'), Counter Terrorist and Proliferation Financing, Sanctions, Anti-Bribery and Corruption ('AB&C'), Fraud Prevention and Tax Transparency with the following top priorities:

- A suitable Customer Due Diligence ('CDD') framework, which incorporates Customer Identification and Verification ('ID&V') and Know Your Customer ('KYC') principles, as well as Enhanced Due Diligence ('EDD') on customers assessed as higher risk, such as Politically Exposed Persons ('PEPs') in senior positions, their relatives and close associates;
- A good Financial Crime Risk culture, from top management to each staff member, with regular training of employees and contractors;
- A suitable Transaction Monitoring framework, designed to monitor customer transactions for the purpose of identifying suspicious activity to be reported to Tracfin;
- The suitable screening of customers, third parties and transactions globally against the sanctions lists, with the associated investigations being conducted in a reasonable timeframe;
- Ensure prohibition of business activity that HSBC believes may violate applicable sanctions laws or HSBC's Global Sanctions Policy;
- A suitable 'AB&C' framework compliant with the HBSC Group policy and the requirements of Sapin 2 and the Agence Francaise Anticorruption ('AFA');
- Appropriate Fraud prevention systems to deter and detect all internal and external fraud attempts;
- Robust policies designed to meet the obligations related to tax fraud and tax evasion in line with art L561-15-11 of the Code Monétaire et Financier as well as FATCA, CRS and DAC6 reporting requirements.

This risk is stable versus 31 December 2019.

Environmental risks

HSBC has recently set out its ambitions to be the leading bank within the Net Zero Economy. The Net Zero Economy will require banks to think of return on investment not just in financial terms, but in terms of impact on the climate, society, and the natural ecosystems upon which we depend.

HSBC is aware that those environmental threats including climate change and transition to a low carbon economy will generate risks in the short, medium and long term. HSBC Continental Europe also meets French regulatory and non-regulatory requirements by assessing its exposure to those risks.

Climate change

Climate-related risks are divided into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change, and will materialise over different time horizons depending on the country and the sector considered. Transition risk, in the context of climate change, is the risk that the ability of a customer/counterparty to meet its financial obligations deteriorates as a consequence of the transition from a high-carbon to a low-carbon economy. This transition could be driven by policies and regulations, adoption of energy efficient technologies and market changes.

Transition risk could manifest itself as lost revenues, declining asset values, increased costs (including higher inputs cost, investment in new technology, CO_2 tax, regulatory related costs/ fines, legal claims) and by reputational risk. HSBC may assume exposure to material climate-related risks through lending or market dealing activities with companies which have direct exposure to climate-related risks (e.g., fossil fuel producers, intensive fossil fuel users, real estate owners, or agricultural/food companies). The bank could also become subject to reputational risk and litigation related to its financing activities to CO2 intensive businesses. At the same time, as the markets for low-carbon and energy-efficient alternatives grow, HSBC may pursue opportunities with firms making investments in 'green assets'.

Mitigating actions

HSBC is developing risk policies and procedures consistent with Group Risk Appetite to (1) protect the Group from climate change risk and (2) enable business supporting a transition to a low carbon economy.

It is developing processes to measure and report exposure (defined as Cat A limits/outstanding) to (1) carbon intensive and (2) low carbon business activities. Transition risk is measured and monitored by the client facing teams and the credit teams, and exposure to Transition Risk is reported to the RMM including regular review of sensitive sectors/clients. This process will help to align the Group's portfolio to net zero by 2050.

This risk has remained stable versus 31 December 2019.

Biodiversity

Biodiversity loss is one of the greatest systemic risks to the global economy and the health of people and the planet. The global economy and ecosystems on which we rely depend heavily on functioning ecosystems for food, fuel, fibre, climate regulation, water resources, air quality and many other essential products and services. There is an increasing regulatory and legal pressure, as well as calls from investors and other stakeholders to put a spotlight on corporates 'management of natural capital, leading companies to incur higher costs of capital when engaging in nature-degrading practices.

Nature capital-related risks which might have a direct impact on the bank are (1) operational – i.e. increased risk of default as a result of customer/counterparty facing higher business costs due to a reduction of resources/revenues directly linked to natural capital loss/degradation or reduced valuation due to increased costs for ecosystemic services which are not delivered anymore; (2) legal and regulatory – downward revaluation of assets due to high risk of litigation relating to activities that damage the natural environment or compromise livelihoods or risks of stranded assets as a consequence of land-use change limitations, constraints on pesticide use, waste generation; (3) markets – loss of investment value due to customers' boycotts of entities producing goods that are seen to have negative environmental impacts or loss of clients due to a poor environmental performance of a fund; (4) reputational – damaged reputation as a consequence of negative press coverage related to financing of projects with negative impact on natural capital or loss of clients as a result of their perception that the bank does not adequately account for natural capital in its decision making;

Mitigating actions

HSBC is updating risk policies to strengthen its framework relative to environmental and biodiversity risks that may arise from the financial products and services it delivers.

HSBC Global Asset Management is also testing how to set up a biodiversity impact score in their portfolio assessment tools. Trainings on 'why biodiversity matters' have been conducted over the past years among CMB teams.

This risk has increased versus 31 December 2019 and is now listed in the top and emerging risks.

IBOR Transition risk

Throughout 2020, the IBOR ('interbank offered rate') transition programme has continued to implement the required IT and operational changes necessary for an orderly transition from demising EONIA and LIBOR to the replacement near Risk Free Rates ('nRFRs'). These included meeting regulatory deadlines for loan product readiness and the transition to nRFR discounting by clearing houses. The programme also covers EURIBOR contracts; indeed, even if the EURIBOR is not planned, for now, to be discontinued, the industry is working on developing robust fallback clauses for this index as required by the European Benchmark Regulation, that will have to be incorporated in new and potentially legacy contracts.

Mitigating actions

The programme has identified financial and non-financial risks by line of business, and entity where appropriate, including key mitigation required. The risk associated with continuation of sale of products referencing IBOR has been most prevalent in 2020, with a control framework implemented to reduce potential conduct implications. Given the impact of Covid-19 and the progression of the programme into execution phase, the operational risks associated with rollout of new products, migration of legacy contracts, and new product sales are increasing, as a result of compressed timelines for client engagement. The legal risks associated with enforceability of fallback provisions in IBOR contracts, and the regulatory compliance risk due to interpretation of near RFR loan market conventions are also emerging.

For further details on our approach to IBOR transition, see 'Areas of special interest' on page 81.

The risk has increased versus 31 December 2019.

Business Model risk

The banking industry in Europe is still impacted by low profitability, with some banks generating a return on Equity ('RoE') which is below their estimated cost of equity.

HSBC Continental Europe, has been impacted by the prolonged period of low interest rates and intense competition impacting the ability to generate income. Furthermore, investments in IT and to support the fight against Financial Crime have weighed on our cost base. The current uncertain macroeconomic outlook adds pressure on revenues, loan impairment charges, and impacts credit, capital, liquidity and people risks. The Group strategy presented on 18 February 2020 aims to improve returns and efficiency in Continental Europe by 2022, and to reduce Risk Weighted Assets ('RWAs'). Given these guidelines, Global Businesses have reviewed their operating models, to build more streamlined and effective operations across Europe. HSBC Continental Europe's focus in 2021 is to continue to manage Covid-19 impacts whilst moving forward with the transformation of our activities: (i) the strategic review of the retail operations which is ongoing and no decision has been made; (ii) the repositioning of our Global Banking and Markets ('GBM') activities for which a social plan has been approved by the French Ministry of Labour – associated employee exits will take place in 2021; (iii) the reshaping of our Commercial Banking ('CMB') activities and support functions through a voluntary redundancy plan; and (iv) the transformation of the HSBC Continental Europe International/European Economic Area ('EEA') branches, which increases focus on client-related activities whilst better leveraging our Paris hub and the Group's Centres of Excellence. The adaptation of our operational model will enable a significant reduction of our cost base across Continental Europe. HSBC France has changed its name to become HSBC Continental Europe. The new name better reflects the purpose and nature of its activities, namely an integrated Continental European bank connecting our customers to HSBC's global network, and providing access to Continental Europe for HSBC's customers around the world.

Mitigating actions

HSBC Continental Europe has identified a number of initiatives to adapt its businesses and its cost structure to the current environment. These are being tracked both at the country, European and Group level. Key projects such as the repositioning of our Global Banking and Markets ('GBM'), and Commercial Banking ('CMB') activities, the adaptation of our operational model as well as for the preparedness of the United Kingdom's departure from the European Union are being implemented to support market developments. The strategic review of our Retail operations is still ongoing. No decision has been taken.

This risk has increased since 31 December 2019 given the macroeconomic environment which has worsened due to the sanitary crisis.

Reputational Risk

The need to adapt HSBC Continental Europe's business model to the current operating environment has significantly increased the number of transformational projects. The intensity and the pace of transformation is an area of concern for HSBC Continental Europe's reputation overall as well as for employees.

Mitigating actions

These risks are closely monitored and mitigation actions have been implemented, including an enhanced communication plan.

The risk has increased since December 2019.

Geo-political Risk

Financial markets around the world remained impacted by geopolitical dynamics. High levels of geopolitical risk has become the new normal, with uncertainty surrounding policy, international relations and political leadership are now an increasing driving force behind financial market volatility.

US: The US elections were the main focus this year.

Middle East: Broadly the region was calm in 2020. The agreements signed by Israel in 2020 establishing diplomatic relations with four Arab League countries, Bahrain, the United Arab Emirates, Sudan and Morocco were positive for the region. US tensions with Iran remained high however. It remains to be seen whether the new US administration will change existing US policy or not.

Europe: The United Kingdom left the European Union on 31 January 2020 and entered a transition period until 31 December 2020, during which negotiations took place on the future relationship between the UK and the EU. The risk of a no deal remained high throughout 2020.

Mitigating actions

We continue to closely monitor the evolving political and economic environments and portfolio quality to the sectors most affected. In particular, exposure is reviewed regularly for 'at risk' sectors or companies.

The risk has remained stable versus 31 December 2019 notwithstanding the threat of a no deal throughout much of this year.

Internally driven

IT risks & Operational resilience risks

Apart from malicious activities, the bank's IT systems are also exposed to malfunction or breakdown risk, which would affect HSBC Continental Europe's clients, operations or its ability to comply with regulatory obligations.

Mitigating actions

HSBC Continental Europe is implementing a regular data and software migration programme onto new servers. In some instances, the Bank decided to outsource some IT services to third party companies whenever it is safer and more efficient. The use of Cloud services allows us to increase our resilience while maintaining control over our data, applications and architecture.

An evergreening plan is in place to updates the software being used with the recent versions to ensure that vendor support will be obtained if an incident occurs.

This risk is stable versus 31 December 2019.

People risks

A more challenging external environment, made worse by the Covid-19 crisis as well as the implementation of several restructuring projects in accordance with our ongoing strategic orientation at HSBC Continental Europe impact the bank's staff and create an environment that many employees feel as complex and more uncertain.

Due to the low interest rates environment, an increasingly competitive situation in market activities and the Covid-19 pandemic crisis, HSBC Continental Europe's financial results are deteriorating compared to previous years and this situation could therefore potentially lead to a decrease in staff engagement and increased sick leave. In addition, the current transformation and increasing complexity in the banking industry modify the skills and expertise required in all Businesses and Functions. Staff have to adapt themselves and develop new competencies, which could create a feeling of unsuitability for some of them.

Mitigating actions

In order to mitigate the above risks, HSBC Continental Europe is making regular and clear communications to all staff concerning the reorganisations, projects in progress and future skills. The bank also monitors with attention the workload and stress levels of its employees via bi-annual surveys. Line managers are equally made aware of this risk regularly and are encouraged to take appropriate action when necessary. HSBC Continental Europe in France has developed a series of collaborative workshops to collect feedback and concrete action plans and has created a programme called #Resilience to help managers and employees cope with the current context of high uncertainty. In addition, HSBC Continental Europe in France has deployed specific learning classes 'Future Skills' for staff to develop new competencies and adapt themselves.

The risk has increased versus 31 December 2019.

Execution risks

In order to deliver our strategic objectives and meet mandatory regulatory requirements, it is important for HSBC to maintain a strong focus on execution risk. The increase of different projects and reorganisation in progress at HSBC Continental Europe could generate conflicting priorities and conflicts *vis-à-vis* the allocation of resources. This could impact on the management of each project, its correct and timely completion and on the running of the bank with possible consequences such as financial losses, reputational damage or also regulatory sanctions.

Mitigating actions

HSBC Continental Europe provides the necessary means to manage its various projects be they technical, financial or human, particularly in an environment where these resources are shared with the other parts of the HSBC Group at European and global level. These are subject to regular monitoring as part of the governance framework adapted to the nature and complexity of the projects. The most important projects are followed at the highest possible global, regional and local governance forums. The local governance, which is ensured by a dedicated monthly Oversight Project committee was launched on 1 January 2018.

The risk has increased since 31 December 2019.

Model risks

Model risk arises when business decision making includes some reliance on models, which are increasingly used across many areas of the bank in both financial and non-financial contexts. While sound controls are already in place, in particular the maintenance of a model inventory and its extensive coverage by regular independent model validations, a new and more ambitious Model Risk Policy is being implemented to improve them further and effectively manage model risk. Failure to do so could expose the bank to reliance on ill-controlled models, impact strategic objectives especially in terms of efficient use of capital, and bring reputational risk to HSBC Continental Europe.

For regulatory capital models specifically, HSBC Continental Europe's supervisors continue to hold their expectations high regarding model quality and control. Supervisory Authorities have expressed reservations on the quality of some current models, but also of new developments submitted for approval, which generates a risk that unfavourable conditions may be imposed for the calculation of Risk Weighted Assets based on internal models; and, beyond, this makes the usage of internal models uncertain over the longer term for some client segments. On the longer term, several changes are planned, are ongoing or being considered by supervisors: enhanced definition of default, reassessment of models used for Probability of Default and Loss Given Default, CRR2 and 3, Fundamental Review of the Trading Book. This leads to uncertainty on the long-term regulatory framework for regulatory capital models, which might need significant redevelopments, entailing risks of regulatory approval issues, and of capital impacts in case of defects in the new models' performances. Given its unprecedented nature, the Covid-19 crisis is a major challenge for models, as they mostly rely on the assumption of stable relations between some economic and financial features. In particular, Probability of Default models used for regulatory capital and provisioning perform less well and have to be adjusted on the basis of recent observations or expert judgement.

The deep changes in rate benchmarks ('IBOR') that are due to happen over the next few years, can cause model-related challenges in areas such as Traded Risk and Markets Valuation, in particular due to uncertainties related to the timing and exact nature of the transition period. Lack of awareness of the impact on the model landscape and model risk, could result in ineffective prioritisation of coordinated activities, and partial inability to cope with some aspects of the transition.

On the development side, models are used by businesses on a wider and wider scope, with more sophisticated modelling approaches linked to technical developments in machine learning. While this is expected to result in increased efficiency, there is a risk that model controls might not follow the pace of developments, leading to lower visibility on actual model risks. Besides, the growing focus on environment risk is not translated yet into the bank's models, which might ultimately lead to an incorrect assessment of this risk and to inadequate business decisions.

Mitigating actions

HSBC Continental Europe is actively improving its model risk management framework, and the implementation of the new model risk policy is closely monitored by committees gathering key stakeholders. For regulatory capital models specifically, HSBC Continental Europe is actively engaging with supervisory bodies to ensure their concerns are addressed and expectations are being met. Development of enhanced models for the main areas of concern is ongoing, with some models submitted to supervisors in 2020 and some planned to be in 2021.

The consequences of future regulation changes on models are reviewed in formal project planning and working groups established, as required, to address regulatory change, including the Fundamental Review of the Trading Book and Basel III reforms. Review of broader regulatory guidance for model implications will continue, and be addressed in conjunction with established HSBC working groups and governance. Active engagement with regulatory bodies will continue.

The performance of the bank's models in the crisis context is being actively monitored, in particular with a particular category created for credit override when model output is inadequate. Adjustments are in place on scenarios used for provisioning. Concerning rate benchmarks, a model risk working group has been set up at the level of HSBC Group to conduct gap assessment and give a consolidated view of the transition from the model risk perspective. Global businesses, model owners and Model Risk Management are devising plans to implement model changes and assess model risk during the transition period.

Model Risk Management in HSBC Group is working in conjunction with the global businesses and functions to master the advanced analytic developments and technologies, actively reaching out to new Artificial Intelligence-Machine Learning ('AI-ML') programs which are in the process of being developed. The embedding of environment risks in modelling is still an emerging topic; the second line of defence is encouraging businesses to consider it in their upcoming model developments.

The risk has increased versus 31 December 2019.

Data management risks

HSBC Continental Europe uses a large number of systems and applications to support key business processes and operations. As a result, we often need to reconcile multiple data sources, including customer data sources, to reduce the risk of error, and to ensure an accurate, complete and up to date data in our systems. HSBC, along with other organisations, also needs to meet external/regulatory obligations such as the General Data Protection Regulation ('GDPR'), the Basel committee for Banking Supervision ('BCBS' 239) principles and Basel III.

Mitigating actions

- We continue to improve data quality across the large number of systems that we use. Data management, aggregation and oversight continues to strengthen and enhance the effectiveness of internal systems and processes. We have continuously enhanced our data controls in order to comply the increased regulatory requirements and to better meet customer expectations.
- We have achieved our objectives in support of the Basel Committee for Banking Supervision ('BCBS' 239) principles.
- We continue to enhance and advance our data insights, data aggregation, reporting and decisions. We carry out ongoing improvement and investments in data Governance, data Quality, data Architecture and data Privacy.
- Through the implementation of the Global Data Management Framework, HSBC has made progress in increasing coverage of key business processes and associated critical data to monitor which again HSBC Continental Europe is benefiting from. A proactive monitoring and reporting on the quality of customer, product, reference and transaction data is designed for identify, track remediation and resolve the associated data issues in a timely manner.
- Additional control monitoring developed Key Performance, Control and Risk Indicators that will be integrated in 2021 with the current controls and reported to the appropriate data governance forums.
- HSBC is continuously improving the global Data Privacy Framework that establishes data privacy practices, design principles and guidelines that demonstrate compliance with Data Privacy Laws and Regulations in the jurisdictions which HSBC Continental Europe operates such as the GDPR in EU. Streamlining on the implementation of data privacy processes with new tools to enhance compliance with data privacy regulation on Data Transfers and Privacy Impact Assessments.
- HSBC have also initiated efforts to modernise data architecture and infrastructure through adoption of big data, cloud, machine learning, advanced analytics and visualisation technologies. To help our employees keep abreast of Data Management and Data Privacy Laws and Regulations and continue to hold annual data symposiums and data privacy awareness training highlighting our commitment to protect personal data for our customers, employees and stakeholders.

The risk is stable versus 31 December 2019.

Third Party Risk

HSBC Continental Europe utilises third parties for the provision of a range of services, in common with other financial service providers. Risks arising from the use of third-party service providers may be less transparent and therefore more challenging to manage or influence. It is critical that we ensure we have appropriate risk management policies, processes and practices.

These should include adequate control over the selection, governance and oversight of third parties, including Cloud, particularly for key processes and controls that could affect operational resilience. Any deficiency in our management of risks arising from the use of third parties could affect our ability to meet strategic, regulatory or client expectations.

Mitigating actions

We continued to embed our delivery model in the first line of defence through several dedicated teams. Processes, controls and technology to asses third party service providers against key criteria and associated control monitoring and assurance have been developed.

Oversight capabilities in the second line of defence has been enhanced to monitor and embed policy requirements and performance against risk appetite. Within the second line of defence, the Resilience Risk is in charge of defining the strategy and the policy for an effective management of the Third Party Risk.

Governance: Any outsourcing of a material service is formally approved by the Bank Risk Management Meeting prior to the contract commencement date.

A dedicated Cloud Committee is implemented to review each project to outsource on a Cloud to ensure adherence to the Group Cloud strategy and to review data privacy, regulatory compliance, Legal and IT aspects.

A quarterly Third Party Risk Forum is in place to ensure that third parties are managed in line with Group standards and regulatory expectations.

The risk has increased versus 31 December 2019.

Risk factors

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

They may not necessarily be deemed as top or emerging risks; however, they inform the ongoing assessment of our top and emerging risks that may result in our risk appetite being revised.

For the risks linked to Covid-19 see 'Areas of Special Interest' on pages 83 to 85.

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

Macroeconomic risks

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

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

As the Covid-19 outbreak continued to disrupt the economic activity in most countries in the word, including in Europe throughout 2020, there could be adverse impacts on HSBC Continental Europe's income due to lower lending and transaction volumes and lower wealth and insurance manufacturing revenue, including the present value of in-force long-term insurance business ('PVIF'), due to bond and equity markets volatility and weakness. In addition, lower interest rates will negatively impact net interest income and extreme market movements could have a negative impact on HSBC Continental Europe's markets activities. The current uncertain macroeconomic outlook will add pressure on revenues, weigh on loan impairment charges, and impact credit risk, capital risk, liquidity risk and people risk.

HSBC Continental Europe's priority in 2021 is to continue to manage the consequences of the Covid-19 health crisis while carrying on with the transformation of its businesses. The HSBC Group has launched a restructuring of its businesses and central functions. The Group strategy presented in February 2020 aims to improve returns and efficiency in Continental Europe by 2022, and to reduce Risk Weighted Assets ('RWAs'). Following these announcements, the global business lines and the central functions have been working on designing new business and operating models in order to make the bank simpler and more agile across Europe. This has been undertaken alongside the strategic review of the Retail operations which is ongoing and for which, at this point, no decision has been made.

Loss before tax was EUR 945 million in 2020, sharply down from a EUR 22 million loss in 2019, and included impairments of tangible and intangible assets, restructuring costs, an adverse PVIF movement and incremental ECL charges.

Geopolitical risks

The United Kingdom's withdrawal from the European Union may pose operating challenges to HSBC Continental Europe in its adaptation to the new economic and regulatory environment Probability: Likely / Impact: Medium

The United Kingdom left the European Union on 31 January 2020 at midnight following the withdrawal agreement ratification, and entered a transition period until 31 December 2020. A Trade and Cooperation Agreement between the European Union and the United Kingdom was agreed on 24 December 2020, and ratified by the British Parliament on 30 December 2020. Prior to European Parliament ratification (expected in 2021), the Trade and

Cooperation Agreement provisionally comes into effect from 1 January 2021 onwards. The European Union and United Kingdom agreed through a joint declaration to establish structured regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship between autonomous jurisdictions. However, there remain risks, many of them linked to the absence of tangible agreement between the United Kingdom and the European Union on financial services. While the United Kingdom and the European Union have made a number of equivalence decisions before the end of the transition period, both parties are expected to establish the framework of their future cooperation with the Memorandum of Understanding to be signed by 31 March 2021. The United Kingdom's future relationship with the European Union will have implications for the future business model for HSBC Group's London-based European cross-border banking operations, which relies on unrestricted access to the European financial services market (discontinuation of the free movement of services and significant changes to the United Kingdom's immigration policy).

Similarly, HSBC Continental Europe may be restricted in accessing UK based financial infrastructure.

As a result, meeting HSBC clients' needs after the United Kingdom's departure from the European Union required adjustments to HSBC European cross-border banking operations, including the transfer to HSBC Continental Europe of several EEA-based HSBC entities to HSBC Continental Europe and the migration of impacted businesses and clients from the United Kingdom to its EEA subsidiaries, in particular HSBC Continental Europe. The programme is now largely completed. HSBC Continental Europe has addressed many challenges (legal, regulatory, organisational, operational, IT-related, HR-related, financial) as part of its adaptation programme. These adaptations are now largely implemented and HSBC Continental Europe is now providing continuity of service to EEA customers previously banking with HSBC Bank Plc.

See also page 9 (Purpose and strategy – Impact of United Kingdom's withdrawal from the European Union on HSBC Continental Europe) and page 81 (Areas of Special Interest – The United Kingdom's withdrawal agreement from the European Union) for further information.

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

HSBC Continental Europe is exposed to the risks associated with the replacement of IBORs (interbank offered rates). Probability: Likely / Impact: High

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

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

See also section 'IBOR transition' in the Areas of Special Interest on pages 81- 83.

Risks related to our business, business operations, governance and internal control systems

Risks concerning borrower credit quality are inherent in our businesses. Probability: Likely / Impact: Very 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 we fail to estimate accurately the effect of factors that we identify or fail to identify relevant factors. Further, the information; HSBC Continental Europe use to assess the creditworthiness of our counterparties may be inaccurate or incorrect. Any failure by HSBC Continental Europe to accurately estimate the ability of our counterparties to meet their obligations may have a material adverse effect on HSBC Continental Europe its prospects, financial condition and results of operations. The level of any material adverse effect will depend of the number of borrowers involved, the size of the exposures and the level of any inaccuracy of our estimations.

In 2020, HSBC Continental Europe has been taking exceptional measures to protect itself and its clients and participate in the prevention of an economic collapse, in particular through a quasi-systematic six month deferral of loan repayments for its smaller CMB clients and its personal, professional and entrepreneur client base within WPB, with limited exclusions or restrictions. For the corporate segments, deferral of repayments has been considered on a case-by case basis. At the beginning of the crisis, new money financing has been granted to our customers, either state-guaranteed or not (depending on the individual situation). New money financing have been approved for large corporates to strengthen their short to mid-term liquidity at the beginning of the crisis, usually to support their rating or as a simple bridge to a refinancing in the debt market.

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

Credit Risk RWAs have increased as a result of the deferral of repayments, approval of waiver requests, additional financing requests, precautionary drawdown by companies of their revolving credit facilities and the downgrading of clients' risk rating. For details concerning Credit Risk RWAs as at 31 December 2020 see table 9: 'Credit risk exposure – summary' on page 16 in the 2020 HSBC Continental Europe Pillar 3 document. The geographic breakdown of exposures of HSBC Continental Europe and the credit risk exposures by industry sectors can be found in tables 14 and 15 on pages 22, 23 and 24 respectively in the 2020 HSBC Continental Europe Pillar 3 document.

Expected Credit Losses have increased significantly over the period, reflecting the deterioration of the overall credit worthiness of the portfolio, which consequently increases the ECL for Stage 1 & 2. Stage 3 impairments have also materially increased as some companies entered into default either through bankruptcy or as they engaged into financial restructuring. Change in expected credit losses and other credit impairment charges ('ECL') was

EUR 289 millions in 2020 versus 128 million in 2019. The increase mainly reflected the deterioration of current economic conditions and forward economic outlook that came out as significant provisions on GBM and CMB businesses.

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

Robust management of critical time-sensitive and resource intensive projects is required to effectively deliver HSBC Continental Europe's strategic priorities. HSBC Continental Europe continues to implement a number of programmes (Continental European hub in Paris, transformation and repositioning of our underperforming businesses, completion of the strategic review of retail banking activities, adaptation of our operational model, and regulatory programmes) in addition to the already mentioned project related to the UK's departure from the European Union.

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

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

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

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

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

We have significant exposure to counterparty risk.
Probability: Likely / Impact: High .

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

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

As at 31 December 2020, Counterparty Risk RWAs were EUR 3.7 billion of which EUR 769 million were on IRB advanced approach (100 per cent institutions), EUR 1.7 billion on IRB foundation approach (100 per cent corporates), EUR 712 million standardised (90 per cent institutions), EUR 307 million CVA advanced, EUR 86 million CVA standardised and EUR 132 million CCP standardised. 81 per cent of Counterparty Risk RWAs are derivatives (OTC and exchange-traded derivatives) related. See table: Counterparty credit risk – RWAs by exposure class and product on page 129. Details concerning IRB and Standardised exposure – credit risk mitigation can be found in tables 21 and 22 on pages 31 and Page 32 respectively in the HSBC Continental Europe Pillar 3 document.

See also Counterparty Credit Section on pages 126-129.

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

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

HSBC Continental Europe's transformation is articulated around four pillars: (i) the strategic review of the retail operations which is ongoing and no decision has been made; (ii) the repositioning of our Global Banking and Markets ('GBM') activities for which a social plan has been approved by the French Ministry of Labour – associated employee exits will take place in 2021; (iii) the reshaping of our Commercial Banking ('CMB') activities and support functions through a voluntary redundancy plan; and (iv) the transformation of the HSBC Continental Europe International/ European Economic Area ('EEA') branches, which increases focus on client-related activities whilst better leveraging our Paris hub and the Group's Centres of Excellence. The adaptation of our operational model will enable a significant reduction of our cost base across Continental Europe. HSBC Continental Europe's ability to execute its strategy may be limited by its operational capacity and the increasing complexity of the regulatory environment in which HSBC Continental Europe operates.

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

The threat from cyber-attacks remains a concern for our organisation, and failure to protect our operations from internet crime or cyber-attacks may result in financial loss, business disruption and/or loss of customer services and data or other sensitive information that could undermine our reputation and our ability to attract and keep customers. Ransomware and Distributed Denial of Service ('DDOS') attacks are an increasingly dominant threat across the industry. In 2020, the bank was subject to a small number of DDOS attacks on our external facing websites across the Group. In 2020, the bank was not subject to ransomware attacks although there were several attacks on

Third Parties & Customers. Although cyberattacks had a negligible effect on our customers or services due to the increasing sophistication of cyber-attacks potential future attacks could have a material adverse effect on our business, prospects, our capital, reputation and our profit.

HSBC Continental Europe did not report any operational losses related to Cyber risks in either 2018, 2019 or 2020. Operational losses for combined Information, technology and cyber security risks were EUR 0.22 million in 2020 (of which zero related to cyber risks). See table on page 146 of the HSBC Continental Europe Universal registration document concerning Operational risk losses: quantitative data starting from 2012 for full details.

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

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

Operational losses for combined Information, technology and cyber security risks were EUR 0.22 million in 2020 (of which zero related to cyber risks). See table on page 146 of the HSBC Continental Europe Universal registration document concerning Operational risk losses: quantitative data starting from 2012 for full details.

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

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

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

For details concerning RWAs as at 31 December 2020 – see table: RWAs by risk types on page 132.

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

For information purposes, as of 31 December 2020, assets valued under Level 2 techniques amounted to EUR 50 billion, and liabilities to EUR 54 billion; assets valued under Level 3 techniques amounted to EUR 3.232 billion, and liabilities to EUR 791 million (cf. 2020 HSBC Continental Europe Universal Registration Document, Note 11 of the consolidated financial statements, page 193).

HSBC Continental Europe's operations utilise third-party and intra group suppliers and service providers. Probability: Likely / Impact: Medium .

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

The inadequate management of third-party risk could impact our ability to meet strategic, regulatory and client expectations. This may lead to consequences, including regulatory or civil penalties or damage both to shareholder value and to our reputation, which could have a negative impact on our business, clients, capital and profit. To answer regulatory evolutions related to the implementation of new European Banking Authority guidelines on outsourcing, HSBC Continental Europe has continued to enhance in 2020 its third party risk management framework in order to deal with those risks in a consistent and efficient way within its perimeter. This new framework, applicable within the whole perimeter of HSBC Continental Europe, is currently being rolled out and still needs support from the businesses. Furthermore, remediation works related to pre-existing third-parties are under way. Any outsourcing of a material service needs to be formally approved by the Bank Risk Management Committee / Meeting.

In the context of the Covid-19, a strong follow up has been implemented on our main third party and intra Group suppliers, notably through dashboards. No material incidents linked to Third party occurred.

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

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

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

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

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

Reputational risk has significantly increased in the context of HSBC Continental Europe business model reshaping: The path of transformation and the intense activity linked to an important number of strategic projects concurrently managed have attracted media pick up, most notably the Group's strategic review of retail operations in France, and the reorganisation in Market services and Investment banking, could affect directly HSBC Continental Europe, financially or not, along with partners and clients' trust. Simultaneously the level of uncertainty has increased for both customers and employees and our ability to hire or retain may be impacted by a long lasting period of lack of visibility on businesses and operations moving forward. Negative public opinion may adversely affect our ability to retain and attract customers, in particular, corporate and retail depositors, and retain and motivate staff, and could have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

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

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

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

The world has been dramatically hit by the Covid-19 sanitary crisis. The lockdown measures stopped the economic activity abruptly and forced governments and central banks to react vigorously to avoid a severe and lasting economic depression.

The European Central Bank ('ECB') launched a pandemic emergency purchase programme of EUR 1,850 billion until 2022. The criteria of eligibility – in terms of size by issuer and ratings – have been relaxed compared to the previous plans to allow the institution to purchase Greece and Italian debts more easily. The scope has been extended to non-financial papers.

In the US, The Federal Reserve announced an unlimited quantitative easing program and central government undertook extremely substantial fiscal and credit backed programs.

Despite the support to the economy, the financial markets have been severally impacted by the crisis in the first half of the year.

Stocks market dropped by 20-30 per cent across the globe in March but rallied significantly in June backed by a renewal of optimism on the end of sanitary crisis and the amount of liquidity brought by central banks.

The announcement around vaccination readiness and efficiency lead to a new rally on markets at year end.

However, sanitary situation was still concerning with the winter period on western countries and the lockdown measures still impacting economy despite less thought than in spring. Dedicated coronavirus stress tests did not exhibit significant potential market risk losses on Trading portfolios. They show significant increase of the Counterparty Credit Risk exposure but concentrated on collateralised or investment grade counterparties.

As at 31 December 2020, Market Risk RWAs were EUR 2.7 billion of which EUR 339 million were under standardised approach and EUR 2.3 billion under IMA. The standardised RWAs include EUR 146 million of Interest rate risk, EUR 100 million of Foreign exchange risk and EUR 93 million of options. RWAs under IMA include EUR 444 million VaR RWAs, EUR 964 million Stressed VaR RWAs, EUR 350 million of Incremental risk charge RWAs and EUR 566 million re Others.

See tables: 'Market risk under standardised approach' and 'Market risk under IMA' on page 140.

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

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

In 2020, Operational Risk losses totalled EUR 81.7 million of which EUR 2.3 million were for external fraud compared to EUR 15.1 million in total in 2019 of which EUR 2.5 million for external fraud. Internal fraud was negligible in 2019 and 2020. See table on page 146 of the 2020 HSBC Continental Europe Universal Registration Document concerning Operational risk losses: quantitative data starting from 2012 for full details.

The risk of external fraud remains high as the Covid-19 pandemic continues to disrupt the lives of individuals and organisations, fraudsters continue to exploit the current state of uncertainty through the use of scams designed to steal money by deception (3rd party fraud), organisations have had to change business models to survive and/or take advantage of government bail-out schemes, and there is increased risk of 1st party fraud from clients misrepresenting financial statements to secure additional lines of credit. There is significant fraud risk associated with the bail-out schemes, with associated media coverage globally. To date, we are not aware of significant losses from Covid-19 related fraud in Europe.

In response to Covid-19 lockdown measures, organisations (including HSBC) have had to invoke business continuity arrangements resulting in reduced face to face contact and increased adoption of digital methods to support the processing of client requests. Processes and controls have had to be adapted to support these new working arrangements. Increased levels of staff working remotely, reduced management supervision and visibility of staff activity all contribute to the heightened risk of internal fraud. To date, no evidence of increased internal fraud has been identified in Europe.

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

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

Liquidity, or ready access to funds, is essential to our businesses. Probability: Unlikely / Impact: Medium.

Our ability to borrow on a secured or unsecured basis, and the cost of doing so, can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to the wider HSBC Group, HSBC Continental Europe specifically or the banking sector. Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding, and we place considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in our capital strength and liquidity, and on comparable and transparent pricing. Although deposits have always been a stable source of funding historically, even in times of economic crisis, under an extreme scenario this may not continue. We also access wholesale markets in order to provide funding to align asset and liability balances, maturities and currencies, and to contribute to the financing of our lending and market activities. Non-favourable macroeconomic developments, market disruptions or regulatory developments may increase our funding costs or challenge the ability of HSBC Continental Europe to raise funds to support or expand its businesses.

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

The short-term ratio (Liquidity coverage ratio – LCR), calculated according to the European Commission Delegated regulation (EU 2015/61), was 143 per cent as at end December 2020 compared to the regulatory minimum figure of 100 per cent.

HSBC Continental Europe calculates the long-term ratio (Net stable funding ratio – 'NSFR') under its interpretation of the CRR II (EU 2019/876) to enter into force in June 2021, but also calculates the NSFR, like the HSBC Group, in line with Basel Committee on Banking Supervision's publication number 295 ('BCBS295'). These calculations require various interpretations of the texts, and therefore HSBC Continental Europe's NSFR according to both rules may not be directly comparable with the ratios of other institutions.

As at the end of December 2020, the NSFR, calculated on the basis of the CRR II was 136 per cent and based on the BCBS 295 ruleset, was at 130 per cent.

HSBC Continental Europe undertakes liquidity stress testing to test that its risk appetite is adequate, to validate that it can continue to operate under various stress scenarios that involve an analysis on the relevant probable or severe area of risk to HSBC Continental Europe, and to confirm that the stress assumptions within the LCR scenario are appropriate and conservative enough for the group's business. HSBC Continental Europe also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the bank to exhaust its liquidity resources. If the scenarios are not deemed remote enough, corrective action is taken. Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. The Asset, liability and capital management committees ('ALCO') approves the underlying assumptions and reviews results. These results are also presented through the Internal Liquidity Adequacy Assessment Process ('ILAAP') to the Board. In addition, since 2020 HSBC Continental Europe runs, on a daily basis, an internal liquidity stressed indicator: The Internal Liquidity Metric. This indicator adds in, complementing the LCR and internal stress-tests, a new stress scenario defined internally and relied on the operational day-to-day management of the Bank's liquidity position.

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

We are required to comply with applicable AML laws, Sanctions, AB&C, Fraud Prevention and Tax Transparency regulations, and have adopted HSBC Group policies and procedures, as well as additional local legislative regulatory requirements, and regulators and FIU's expectations and recommendations including Customer Due Diligence procedures and internal control framework and governance, aimed at preventing use of HSBC products and services for the purpose of committing or concealing financial crime and at mitigating HSBC exposition to Financial Crime risks. A major focus of US and UK government policy relating to financial institutions in recent years has been preventing, detecting and deterring money laundering and enforcing compliance with US and EU economic sanctions at Group level. This focus is reflected in part by our agreements with US and UK authorities relating to various investigations regarding past inadequate compliance with AML, and sanctions. These consent orders do not preclude additional enforcement actions by bank regulatory, governmental or law enforcement agencies or private litigation. Our local French regulators remain strongly focused on AML-CTF and, more recently, AB&C and Tax Fraud/Tax Evasion matters within the French Banking industry. Furthermore, French anticorruption requirements have been issued through the loi n °2016-1691 du 9 décembre 2016 said 'Sapin II'. In addition to this, the *Agence Française Anticorruption ('AFA')* have been established to supervise French companies. A number of the remedial actions have been taken as a result of the matters to which the US Deferred Prosecution Agreement ('DPA') related, which are intended to ensure that the Group's businesses are better protected in respect of these risks. As HSBC have met their obligations under the DPA, the agreement has expired at the end of 2017. The Monitor is overseeing HSBC progress under the UK Financial Conduct Authority instructions and will continue its monitoring. In recent years, we have experienced a substantial rise in the volume of new regulation impacting our operational processes, along with increasing levels of compliance risk as regulators and other authorities pursued reviews and investigations into the bank's activities. It is important to note that France on-site visit and plenary discussions for a mutual evaluation is scheduled by FATF in 2021. In line with the Group's heightened standards and organisation, HSBC Continental Europe has continued to improve the Financial Crime Compliance and Regulatory Compliance framework. However, there can be no assurance that these will be completely effective.

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

Within HSBC Continental Europe, every month, all transactions – more than 30 million across 1.7 million accounts – are analysed to detect signs of money laundering, terrorism financing tax avoidance, bribery and corruption, fraud and failure to comply with sanctions. In addition, 1.7 million names are screened on an ongoing basis using various surveillance lists. In order to ensure the effectiveness of our policies, an annual training course has been taken by over 98 per cent of HSBC Continental Europe employees, which is in line with the bank's Risk Appetite of having at least a 98 per cent mandatory training completion rate (the Risk Tolerance is set at 97 per cent).

ESG Risks – Environmental, Social and Governance

Refer 'Non-financial performance statement' within 'Sustainability'.

Key developments and risk profile

Key developments in 2020

In 2020, we undertook a number of initiatives to enhance our approach to the management of risk. These included:

- In line with the increasing threat landscape that the industry faces within non financial risk, a new Operational & Resilience Risk sub-function has been implemented. The sub-function provides robust first line of defence oversight and risk steward oversight, supported by clear plans and evidenced by effective and timely independent challenge;
- HSBC Risk management framework has been simplified through the combination of the Enterprise Risk Management Framework ('ERMF') and the Operational Risk Management Framework ('ORMF') that allows HSBC to manage more efficiently and easily its risks;
- The HSBC Group simplified its risk taxonomy through consolidating certain existing risks into broader categories, for example Resilience Risk. We adopted this approach. These changes streamline risk reporting and promote common language in our risk management approach. Further simplification will continue during 2021;
- We continued to focus on HSBC Third Party Risk Management Framework and Cloud framework further to the implementation of the EBA Guidelines on Outsourcing;
- We continue to promote Risk Culture through dedicated sessions for First Line of Defence, Risk stewards and Senior management related to Non-financial risk framework and through specific elearning for each stakeholders within the Three lines of Defence.
- We continued to promote and encourage good conduct through our people's behaviour and decision making to deliver fair outcomes for customers and preserve market integrity;
- We continued to focus on simplifying and enhancing our approach to non-financial risk management. We drove more effective oversight and better end-to-end identification and management of non-financial risks;
- A new risk management structure and governance redesign has been implemented since 1 December 2020 with the implementation of HSBC Continental Europe, comprising France, its European branches (Spain, Italy, Luxembourg, Netherlands, Belgium, Czech-Republic, Poland, Greece, Ireland and Sweden).

Risk Management

We recognise that the primary role of risk management is to protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model described on page 101.

We are focused upon implementation of our business strategy, as part of which we are carrying out a major change programme, and it is critical that we ensure we use active risk management to manage the execution risks.

We will also perform periodic risk assessments, including against strategies, to help ensure retention of key personnel for our continued safe operation.

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

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

Risk management framework

An established risk governance framework and ownership structure ensures oversight of, and accountability for, the effective management of risk within the group. HSBC's risk management framework ('RMF') fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. Integral to the RMF and risk appetite, stress testing and the identification of emerging risks.

The HSBC Continental Europe Risk Committee is aligned with the Bank approach focusing on risk governance and provides a forward-looking view of risks and their mitigation. The Risk Committee is a committee of the Board and has responsibility for oversight and advice to the Board on, amongst other things, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance. Additionally, members of the Risk Committee attend meetings of the

Nominations and Remuneration Committee at which the alignment of the reward structures to risk appetite is considered.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit, the Head of Financial Crime Compliance and the Head of Regulatory Compliance, with other business functions for risks within their respective areas of responsibility.

Responsibility for managing both financial and non financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. We maintain oversight of our risks through our various Risk Stewards, as well as the accountability held by the Chief Risk Officer.

Non financial risk includes some of the most material risks HSBC faces, such as cyberattacks, poor customer outcomes and loss of data. Actively managing non-financial risk is crucial to serving our customers effectively and having a positive impact in the social environment.

During 2020 we continued to strengthen the control environment and our approach to the management of non financial risk, as broadly set out in our risk management framework. The management of non financial risk focuses on governance and risk appetite, providing a single view of the key non financial risks, and associated controls. It incorporates a risk management system designed to enable the active management of non financial risk.

Our ongoing focus is to simplify our approach to non financial risk management, while driving more effective oversight and better end-to-end identification and management of non financial risks.

In compliance with the requirements of the French order of 3 November 2014 and HSBC Group requirements, HSBC Continental Europe has established a permanent control and risk management framework detailed in the following chapters.

Risk governance

HSBC Continental Europe Risk Management Meeting ('RMM'), is the overarching committee of risk management, next to the committee in charge of overseeing more specifically the Financial Crime Risk and Sanctions Risk (ensuring the supervision of risks related to financial criminality and disrespect of international sanctions): the Financial Crime Risk Management Committee.

Chaired by the Chief Risk Officer ('CRO'), the Risk Management Meeting gathers monthly the members of the Executive Committee in order to examine major risks faced by HSBC Continental Europe following a previously agreed agenda. HSBC Continental Europe Executive Committee members are also members of the HSBC Continental Europe Risk Management Meeting.

It reviews monthly financial and non-financial risks of businesses and functions, the ones from HSBC Operations, Services and Technology, the evolution of action plans put in place in order to mitigate identified risks, and operational losses. The HSBC Continental Europe Risk Management Meeting reports functionally to its European equivalent in the HSBC Group: the HSBC Europe Risk Management Meeting.

This framework is completed by dedicated risk forums and working groups for specific risks in businesses and functions combining the various levels of internal control, in order to manage, monitor and control all HSBC activities within HSBC Continental Europe. Main functions acting as second line of defence hold a monthly or quarterly meeting, chaired by the function's head and attended by function's members and experts, businesses representatives, Operational & Resilience Risk representatives and for some of them the Chief Risk Officer of HSBC Continental Europe.

The control framework

In compliance with the requirements of the French Order of 3 November 2014 and the HSBC Group requirements, a permanent control and risk management framework has been established in HSBC Continental Europe.

The Chief Risk Officer of HSBC Continental Europe is responsible of the permanent control within HSBC Continental Europe's perimeter.

The key responsibility for control falls to the managers of the various businesses, functions and HSBC Operations, Services and Technology who must ensure that primary controls are conducted in a proper manner and covered by a second-level independent controls process. This framework is detailed in the part 'Risk Management Framework'. HSBC Group risk management framework is defined through the 'Three Lines of Defence' as described hereafter.

Non financial (or operational) risks

The operational risk or non financial risk, is the risk that might be the result of inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically and external events.

HSBC Continental Europe manages its non financial risks following Risk Stewards recommendations and under the supervision of Operational & Resilience Risk function that ensures a holistic vision of non-financial risks for the bank.

Financial risks

HSBC Group has established standards, policies and control procedures dedicated to monitoring and management of risk linked to its activities.

All the HSBC Continental Europe's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of different types of risks.

Tools

In compliance with the French Order of 3 November 2014 related to bank permanent control, each entity has set up a framework to monitor its risks. Inherent and residual risks are listed in the businesses risk maps specific to each business (Commercial Banking, Global Banking and Global Market, Retail Banking and Wealth Management and Private Banking). These maps summarise the risk assessment by business and the related controls on a risk-based approach.

The update of the internal control framework and in particular the risks and controls assessments is undertaken on an ongoing basis and follow trigger events, which lead to reassess the related risks and controls linked to it. Businesses, and most of the Functions risk profile is presented formally at least annually to the Chief Risk Officer in attendance of concerned Risk Stewards, the Head of Operational & Resilience Risk function and Audit. The objective of the exercise is to ensure that assessment and management of non-financial risks is consistent across Businesses and Functions in respect of HSBC operational risk management framework and French regulation.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model, whereby the activity a member of staff undertakes, drives which line they reside in.

The model underpins our approach to risk management by clarifying responsibility, encouraging collaboration and enabling efficient coordination of risk and control activities.

The three lines are summarised below:

- the first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them;
- the second line of defence is responsible for ensuring that all risks it oversees are effectively managed and provides advice, guidance and challenge to the first line of defence. This line has been reinforced by Assurance teams, in particular within Compliance, which are dedicated to reviews based on a comprehensive understanding of specific risk types.
- the third line of defence is the Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the group's risk management framework and internal control governance process.
- In 2020, our risk management practice has evolved by introduction of a new role into the Three Lines of Defence model. The first line of defence has been reinforced with the Business Service Owner role, accountable for the delivery of one of more end-to-end business key service offered to our customers. They are responsible for overseeing and managing each of HSBC's material Business Services end-to-end, including the risk, control effectiveness and resilience of that service.

Risk culture

Our risk culture is reinforced by our values. It is instrumental in aligning the behaviours of individuals with our attitude to assuming and managing risk, which helps to ensure that our risk profile remains in line with our risk appetite.

We use clear and consistent employee communication on risk to convey strategic messages and set the tone from senior management and the Board. We also deploy mandatory training on risk and compliance topics to embed skills and understanding in order to strengthen our risk culture and reinforce the attitude to risk in the behaviour expected of employees, as described in our risk policies.

The risk culture is reinforced by HSBC Group's policy on performance management and remuneration through both financial and non financial annual objectives setting that are aligned to our risk appetite, our Group' values and our global strategy, through reward of individual or collective initiatives targeted to improve our risk management and/or allowing identification and prevention of frauds, through identification of breaches on our internal rules and practices.

Since 2016, the programme 'Embedding FCC Culture' allowed HSBC Continental Europe to strengthen employees' knowledge and the effectiveness of the framework enabling the bank to better identify financial crime risks and to terrorism risks from the first line of defence and HSBC Operations, Services and Technology.

The 'Conduct Programme', applicable to every HSBC employee, aims to ensure that actions and decisions taken as part of our activities are in compliance with Group's objectives. Trainings and communications are regularly deployed in order to enhance employees' knowledge completing a global mandatory training for all employees called 'Values, Conduct and Me'. Furthermore, a conduct handbook has been issued, highlighting for employees, the best ways to incorporate conduct outcomes in their actions and decisions in order to deliver good customer outcomes and not to disturb the orderly and transparent operations of financial markets. Speak up culture is encouraged in order to detect and prevent risks but also to manage them promptly and appropriately.

Risk function

The Risk function is headed by the Chief Risk Officer, which is responsible for the risk management framework of HSBC Continental Europe. This responsibility includes establishing risk policy, monitoring risk profiles, and forward-looking risk identification and management. Risk is made up of sub-functions covering all risks of our activities. Risk function is part of the second line of defence. It is independent from commercial activities.

Enterprise-wide risk management tools

HSBC Continental Europe uses a range of tools to identify, monitor and manage risk. The key enterprise-wide risk management tools are as follows:

Risk appetite

Our approach to identifying and monitoring risk appetite is described on page 81.

Risk map

The risk map provides a point-in-time view of the risk profile across HSBC's risk taxonomy based on the accountable Risk Stewards judgemental assessment of the First line of defence activities. It assesses the potential for these risks to have a material impact on the Group's financial results, reputation and the sustainability of its business. Risk stewards assign 'current' risk ratings, supported by commentary. Risks that have an 'amber' or 'red' risk rating require monitoring and mitigating action plans to be either in place or initiated to manage the risk down to acceptable levels.

Top and emerging risks

Our approach to identifying and monitoring top and emerging risks is described on page 85.

Stress testing

HSBC Continental Europe operates a comprehensive stress testing programme that supports our risk management and capital planning. It includes execution of stress tests mandated by our regulators. Our stress testing is supported by dedicated teams and infrastructure, and is overseen at the most senior levels of the bank. Our stress testing programme assesses our capital strength through a rigorous examination of our resilience to external shocks. It also helps us understand and mitigate risks and informs our decisions about capital levels. As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests (e.g. concentration risk stress tests on specific portfolios, market risk stress tests and capital sensitivity analysis from several risk factors). Stress test impacts are measured on the profit and loss account, the risk-weighted assets and capital. The stress test outcomes are submitted to the HSBC Continental Europe Risk Committee and Board.

In 2020, HSBC Continental Europe performed a range of stress tests within the stress testing programme, examining both capital and liquidity adequacy in line with the assessed top and emerging risks. These included possible exit scenarios from the Covid-19 pandemic, including the potential of a U-shaped recovery or a double dip. The results of these stress tests were reported to senior management and to the other governance committees of the bank.

In addition to locally driven scenarios, HSBC Continental Europe also contribute to the HSBC Group stress testing programme, including a Global Internal Stress Test and a Reverse Stress Test. Reverse stress tests require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities.

In stress testing exercises, the scenarios usually rely upon a set of macroeconomic and financial variables (e.g. GDP, consumer price index, interest and exchange rates, unemployment, stock index) projected upon a pre-determined period. Several scenarios are usually defined:

- a base scenario considered as the most likely scenario over the projected period, taking into consideration the economic and financial environments and their forward-looking evolution;
- one or several adverse scenarios describing one or several potential shocks affecting the economic and financial environments, like the materialisation of one or several risks weighting on the base scenario.

For macroeconomic stress tests, the base and adverse scenarios are usually centrally coordinated by HSBC Risk and Finance teams, and broken down into regional and country scenarios to ensure global consistency.

To ensure an appropriate coverage of the specific risks faced by HSBC Continental Europe, scenarios specific to France are also developed by HSBC Continental Europe's risk and finance teams, with the support of expert panels.

Regulatory stress tests

Stress testing is an important prudential regulatory tool to assess the resilience of the banking sector and of individual banks to adverse economic or financial developments.

The results inform the regulators and the bank senior management of the capital adequacy of individual institutions and could have a significant effect on minimum capital requirements and planned capital actions, including the payment of dividends, going forward. In 2020, HSBC Continental Europe, along with HSBC Group, were due to participate in the EBA Stress Test 2020. As the highest point of consolidation within the EEC, HSBC Group were to be required to submit consolidated results to the EBA via the Bank of England. HSBC Continental Europe were requested to submit a standalone submission to the ECB as part of the SREP (the ECB's annual Supervisory Review and Evaluation Process).

In March, the EBA and ECB agreed to postpone the EBA Stress Test to 2021 due to the pandemic. Post the end of the transition period on 31 December 2020, HSBC Continental Europe is the highest point of consolidation of HSBC within the EEC, and the EBA have communicated that HSBC Continental Europe will be required to submit on a standalone basis to the EBA via the ECB as part of the EBA Stress Test 2021 exercise.

HSBC Continental Europe, HSBC Bank plc and HSBC Group also take part in the Bank of England's stress test programme, which involves all major UK banks. However, the Bank of England cancelled the 2020 Stress Testing exercise in March. In 2021 the Bank of England are running two exercises, the 'Solvency Stress Test' and an 'Exploratory Scenario' that will be focused on Climate Risk. HSBC Continental Europe will participate in these 2021 exercises alongside HSBC Bank plc and HSBC Group.

Our material banking and insurance risks

The material risk types associated with our banking and insurance manufacturing operations are described in the following tables.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk		
The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: • **measured** as the amount that could be lost if a customer or counterparty fails to make repayments; • **monitored** within limits approved by individuals within a framework of delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance for risk managers and risk owners.
Liquidity and funding risk		
Liquidity Risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or that we can only do so at an excessive cost. Funding Risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.	Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.	Liquidity and funding risk is: • **measured** using a range of different metrics including the liquidity coverage ratio and net stable funding ratio; • **monitored** against the group's liquidity and funding risk framework; and • **managed** on a stand-alone basis with no reliance on any group entity (unless pre-committed) or central bank unless this represents routine established business-as-usual market practice.
Market risk		
The risk that movements in market factors will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: • trading portfolios; and • non-trading portfolios.	Market risk is: • **measured and monitored** using VaR, stress testing and other measures, including the sensitivities of the portfolio value to the different market data; and • **managed** using risk limits approved by the Risk Management Meeting ('RMM').

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Operational risk		
The operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.	Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of our business. Regulatory compliance risk and financial crime compliance risk are detailed below.	Operational risk is: • **measured** using the risk and control assessment process, which assesses the level of risk and the effectiveness of controls; • **monitored** using key indicators and other internal control activities; and • **managed** primarily by global business and functional managers that identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls by using the operational risk management framework.
Regulatory compliance risk		
The risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations, internal and external standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.	Regulatory compliance risk is part of operational risk, and arises from the risks associated with breaching our duties to customers and other counterparties, inappropriate market conduct and breaching other regulatory and good conduct standards.	Regulatory compliance risk is: • **measured** by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our Regulatory Compliance teams; • **monitored** against our regulatory compliance risk assessments and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • **managed** by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime risk		
The risk that the letter and spirit of all relevant laws, codes, rules, regulations, internal and external standards related to Anti-Money Laundering, Sanctions and related to Fraud and Tax Fraud and/or Bribery & Corruption activities are not observed.	Financial Crime risk may arise when: • our services are used to transform the profits of crime and corruption into legitimate assets, or to finance terrorism; • the bank services are used to try and transfer money to sanctioned countries or individuals.	Financial Crime Risks are measured through a set of controls and metrics reflecting the effectiveness of the different processes and solutions in place to fight financial crime risks. These risks are monitored and managed by the Financial Crime Risk Management Committee ('FCRMC'), chaired by the CEO and attended by all business Heads, the COO and Head of FCR. HSBC Continental Europe has carried out FCC transformation and organisation's setting programmes in 2020, particularly focusing on Transaction Monitoring framework.
Model risk		
The risk of business decisions being made on the basis of unreliable model output.	Model risk arises when business decision making includes some reliance on models, which are increasingly used across many areas of the bank in both financial and non-financial contexts.Models are characterised by predictive elements and are at best only a proxy for uncertain real-world behaviours and outcomes. Model risk can be caused by errors in methodology or design of models, by errors in how they are implemented in systems, by being used outside of the business context for which they were intended, or simply by failure to take into account the full complexity of real-world phenomena.	Model Risk is: • Measured by a regular independent model validation activity, resulting in identification of deficiencies (findings) and overall performance assessment. Aggregate metrics allow to measure the reliance on non-validated models or models with serious identified issues. • Monitored by ongoing performance controls from the first line of defence (model owner and user functions) and control activities from the second line of defence (Model Risk Management function). Targeted internal and external audits and regulatory reviews are also taken into account in the bank's surveillance of its model risk. • Managed by ensuring appropriate actions are taken to lower, mitigate or control identified risk for each model, by creating and communicating appropriate policies, procedures and guidance, and monitoring their delivery to ensure operational effectiveness.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Resilience risk		
Resilience risk is the risk of our inability to provide critical services to our customers, affiliates, and counterparties as a result of sustained and significant operational disruption.	Resilience risk can arise from a myriad of failures or inadequacies in processes, people, systems or external events. Operational resilience threats have been exemplified in recent years. Examples of drivers of heightened resilience focus include: rapid technological innovation, changing behaviours of our consumers, increasing cyber-threats and attacks, crossborder dependencies, and third party relationships.	Resilience risk is: • Defining maximum acceptable impact tolerances; • Oversight of risk and control environment; • Continuous monitoring and thematic review.

Other material risks

Risks	Arising from	Measurement, monitoring and management of risk
Reputational risk		
The risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by the bank itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of HSBC Continental Europe.	Primary reputational risks arise directly from an action or inaction by HSBC Continental Europe, its employees or associated parties that are not the consequence of another type of risk. Secondary reputational risks are those arising indirectly and are a result of a failure to control any other risks.	Reputational risk is: • **measured** by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees; • **monitored** through a reputational risk management framework that is integrated into the bank's broader risk management framework; and • **managed** by every member of staff, and covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk.

Our insurance manufacturing subsidiaries are regulated separately from our banking operations. Risks in our insurance entities are managed using methodologies and processes that are subject to Group oversight.

Our insurance operations are also subject to some of the same risks as our banking operations, which are covered by the group's risk management processes.

Description of risks – insurance manufacturing operations

Risks	Arising from	Measurement, monitoring and management of risk
Financial risks		
Our ability to effectively match liabilities arising under insurance contracts with the asset portfolios that back them is contingent on the management of financial risks and the extent to which these are borne by policyholders.	Exposure to financial risks arises from: • market risk affecting the fair values of financial assets or their future cash flows; • credit risk; and liquidity risk of entities not being able to make payments to policyholders as they fall due.	Financial risk is: • **measured** (i) for credit risk, in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; (ii) for market risk, in terms of economic capital, internal metrics and fluctuations in key financial variables; and (iii) for liquidity, in terms of internal metrics, including stressed operational cash flow projections; • **monitored** through a framework of approved limits and delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design and asset liability matching and bonus rates.
Insurance risk		
The risk that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance risk is: • **measured** in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; • **monitored** though a framework of approved limits and delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.

Credit Risk

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 holding of debt securities.

Credit Risk Management

Of the risks in which we engage, credit risk generates the largest regulatory capital requirements.

The principal objectives of our credit risk management are:

- to maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;
- to both partner and challenge Global Businesses in defining, implementing, and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and mitigation.

Within the bank, the Credit Risk function is headed by the Chief Risk Officer who reports to the Chief Executive Officer, with a functional reporting line to the Regional Chief Risk Officer. Its responsibilities include:

- formulating the local credit policy aligned where possible with group policies;
- validating HSBC Continental Europe's appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- undertaking an independent review and objective assessment of risk. Credit risk assesses each request except for the certain modest level proposals (for the Retail and Commercial bank) where detailed credit approval delegations have been established;
- monitoring the performance and management of portfolios across HSBC Continental Europe;
- vetting and controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;
- setting HSBC Continental Europe's policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the HSBC Continental Europe's capital base, and remain within internal and regulatory limits;
- maintaining and developing HSBC Continental Europe's risk rating framework and systems via the local Model Oversight Committees, which oversees the local risk rating model management for both wholesale and retail businesses;
- reporting on retail and wholesale portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results and recommendations to HSBC Continental Europe's Risk Committee and the Board; and
- acting on behalf of HSBC Continental Europe as the primary interface, for credit-related issues, with the ACPR, the ECB and rating agencies.

Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or are engaged in similar activities, or operate in the same geographical areas/industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions.

The group uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Large Credit Exposure Policy – 'LCEP'

The LCEP sets out the policy of HSBC Continental Europe on controlling large risks, and it also forms part of the policy of HSBC Bank plc, HSBC Holdings plc and meets the requirements of the French banking regulator, the *Autorité de Contrôle Prudentiel et de Résolution ('ACPR')* and the European Central Bank ('ECB'). The purpose of the LCEP is to ensure that:

- HSBC Continental Europe adhere to the French regulatory requirements on large lending commitments;
- there is an appropriate framework procedure to monitor and control large commitments and concentrations of risk;
- the commitments by a bank to one individual borrower, or to a group of connected borrowers, should not become excessive in comparison to its capital base;
- excessive concentration and/or the combining of major exposures are excluded; and
- commitments to geographical areas or specific business sectors are strictly monitored to ensure that risky assets are diversified.

Concentration risk by counterparty

Risk exposure limits are classified into three categories:

- category A: all financing recognised on the balance sheet and all commitments such as guarantees, documentary credits and standby letters of credit;
- category B: off-balance sheet market risks such as currency and interest rate swaps taken at their maximum expected risk during the life of the exposure; and
- category S (settlement risk): principally intraday settlement risk on payment commitments and foreign exchange business with customers or for their account.

Commitments to a single counterparty or group of counterparties, excluding central governments/central banks

The approved commitments (total of category A and B limits on one side and category S limits on the other) for any single counterparty or group of connected counterparties, after taking into account any risk mitigation/deduction techniques permitted under the regulations may not exceed 25 per cent of the HSBC Continental Europe consolidated capital.

It should be noted that all commitments, as defined above, which exceed 10 per cent of the HSBC Continental Europe consolidated capital require the approval by HSBC Bank plc independently of the credit approval authorities in place.

Furthermore, commitments (categories A and B) to financial institutions with:

- exposures with a maturity of more than one year;
- exposures to subsidiaries of financial institutions that are not financial institutions themselves; should not exceed 10 per cent of HSBC Continental Europe's consolidated capital.

A quarterly report on all single counterparty or groups of connected counterparties for which the HSBC Continental Europe commitments (the total of categories A and B on one hand, and category S on the other) exceed 10 per cent of its consolidated capital are submitted to the Risk Management Meeting, to the Risk Committee and to the Board of HSBC Continental Europe and to the various Risk committees in HSBC bank plc.

As at 31 December 2020, for HSBC Continental Europe, six groups individually exceeded 10 per cent of the net capital (31 December 2019: four groups).

Sectorial concentration risk

It is an HSBC Continental Europe principle to avoid excessive concentration in any business sector, and to take corrective measures if necessary. The Wholesale Credit Risk Department is responsible for supervising the compliance with this principle. To do so, the Wholesale portfolio split by industry sector is monitored on a quarterly basis during the Risk Committee, the risk appetite by sector being limited to 10 per cent of HSBC Continental Europe's total exposure ('EAD').

In addition, some business sectors, such as Commercial Real Estate ('CRE') and Leveraged Buy Outs ('LBOs'), are governed by their own specific caps and business sector directives laid down by HSBC Continental Europe and/or the HSBC Group. The caps are monitored quarterly.

In addition, and depending on the macroeconomic environment, ad-hoc sector analysis can be undertaken to determine whether mitigating actions are required or not.

Geographical area concentration risk

The overall risk limits for countries and central governments/ central banks are determined by experience, current events and local knowledge as well as by the latest political, economic and market information.

For these types of counterparties, exposures (defined as the aggregate of category A and B limits) are not permitted to exceed 25 per cent of HSBC Continental Europe's Eligible Capital except in the following circumstances:

- exposures to central governments/central banks located in countries which qualify for a zero per cent risk weighting under the Standardised Approach;
- exposures to specific multilateral development banks (as quoted in the FCA and PRA Handbook Glossary) and specific international organisations (as quoted in CRR Art. 117 and 118) which qualify for zero per cent risk weighting;
- exposures to EEA States' central government and central banks denominated and funded in their domestic currency which also attract a zero per cent risk weighting (CRR Art. 114 (4)).

However, it should be noted that regardless of how the country with zero weighting is qualified, all requests are submitted for risk approval and the corresponding authorisations are recorded in the normal manner.

The exposure risk on countries, central governments and central banks is monitored by the HSBC Group Risk Department, which establishes all overall limits on the basis of the recommendations made by the Head of Wholesale Credit and Market Risk and relationship Managers in charge of central governments and central banks. Overall limits for single countries are revised at least annually or more frequently depending on circumstances. These limits are monitored continuously and adjustments may be made at any time.

A quarterly report on country risk exposure (total of limits to categories A and B) in excess of 10 per cent of HSBC Continental Europe's capital is given to Senior Management, the Risk Committee and the Board of Directors of HSBC Continental Europe.

Concerning 2020 and in accordance with its credit guidelines, HSBC Continental Europe's exposures to countries other than France was limited. Only two countries had commitments (category A and B) in excess of EUR 2 billion: Germany and the Netherlands.

The exposures for Germany and the Netherlands were principally comprised of 0 per cent weighted counterparties (articles 115 to 118 of the CRR).

The exposure to other countries, notably China, Italy or Turkey are not significant for HSBC Continental Europe.

Credit Risk Mitigation Techniques

Credit risk mitigants are taken into account in conformity with the regulations derived from the Basel agreements.

They fall into two main categories:

- collateral pledged, in favour of the Bank, is used to secure timely performance of a borrower's financial obligations;
- a guarantee is the commitment by a third party to substitute for the primary obligor in the event of default. By extension, credit insurance and credit derivatives (purchased protection) also fall into this category.

For the perimeter under the Internal Ratings Based ('IRB'), guarantees and collaterals are taken into account, provided they are eligible, by decreasing the Loss Given Default ('LGD') parameter corresponding to an increase in the recovery rate that applies to the transactions in the banking book. The value, taken into consideration, takes into account a haircut depending on the enforceable nature of the commitment and the anticipated fall in the market value of the pledged asset.

For the perimeter under the standardised approach, guarantees are taken into account, provided they are eligible, by applying the more favourable risk weight of the guarantor to a portion of the secured exposure adjusted for currency and maturity mismatches. Collateral is taken into account as a decrease in the exposure, after adjustment for any currency and maturity mismatches.

The assessment of credit risk mitigation effects, follow a methodology for each activity which is common to the entire HSBC Group.

Collateral

Collateral is divided into two categories: financial collateral and other collateral:

- financial collateral consists of cash amounts, life insurance contracts, mutual fund units, equities (listed or unlisted) and bonds;
- other diverse forms of collateral include real estate mortgages or ship mortgages, pledge of equipment or inventories, transfer of commercial receivables or any other rights to an asset of the counterparty.

To be eligible as part of the credit risk analysis, collateral must fulfil the following conditions:

- the pledge must be documented;
- the pledged asset should be able to be sold rapidly on a liquid secondary market;
- the Bank should have a regularly updated value of the pledged asset;
- the Bank should have reasonable comfort in the potential appropriation and realisation of the asset concerned.

Guarantee

Guarantee is the commitment by a third party to substitute for the primary obligor in the event of default. By extension, credit insurance and credit derivatives (purchased protection) also fall into this category. *Credit Logement* can insure the risk of default of a borrower for property loans.

Guarantors are subject to the same credit risk assessment process as primary obligors.

Guarantees could be granted by the borrower's parent company or by other entities such as financial institutions. Hedging via credit derivatives, guarantees from public insurers for export financing or private insurers are other examples of guarantees.

The consideration of a guarantee consists of determining the average amount the Bank can expect to recover if a guarantee is called in following the default of a borrower. It will depend on the amount of the guarantee and on the enforceable nature of the commitment.

Optimising Credit Risk Mitigation via CDS

As part of its mandate of optimising credit risk management for Global Banking and Markets Portfolio Management ('PM') sets up hedges using credit derivatives, and primarily credit default swaps ('CDS'). These CDS are used as part of an active management policy, the main aim being to hedge migration and concentration risks and manage significant exposures. The underlying assets are loans made to large corporates provided by Global Banking and Markets (Banking).

Considered as guarantees and treated under the Internal Ratings Based Approach, CDS hedges totalled EUR 199 million at 31 December 2020 and subject to eligibility, they have for effect of decreasing the risk-weighted assets of the bank.

Credit quality of financial instruments

The HSBC Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of losses.

For individually significant exposures, risk ratings are reviewed regularly and amendments are implemented promptly when necessary. Within the HSBC Group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models.

This risk rating system is based on the probability of default and loss estimates, in accordance with the internal rating methods required by the Basel II framework for calculating regulatory capital.

The five credit quality classifications defined below encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external rating, attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level. Insofar as both fall within one of the five classifications.

All distinct HSBC customers are rated using the PD scale, except for those still under the Standard Basel II method.

Each customer risk rating ('CRR') band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications.

Credit quality classification

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	External credit rating	Internal credit rating[1]	12-month Basel probability of default %	PD Band[2]	12-month probability of default %
Strong	BBB and above	A- and above	CRR 1 to CRR 2	0 – 0.169	band 1 to band 2	0.000 – 0.500
Good	BBB- to BB	BBB+ to BBB-	CRR 3	0.170 – 0.740	band 3	0.501 – 1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR 4 to CRR 5	0.741 – 4.914	band 4 to band 5	1.501 – 20.000
Sub-standard	B- to C	B- to C	CRR 6 to CRR 8	4.915 – 99.999	band 6	20.001 – 99.999
Credit-impaired	Default	Default	CRR 9 to CRR 10	100	band 7	100

1 *Customer risk rating ('CRR').*
2 *12-month point-in-time ('PIT') probability weighted probability of default ('PD').*

Quality classification definitions

- 'Strong': exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good': exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory': exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard': exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit Impaired': exposures have been assessed, individually or collectively, as impaired.

Distribution of financial instruments by credit quality

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	26,137	8,737	16,576	4,203	1,392	57,045	(820)	56,225
– personal[1]	19,305	1,606	1,444	100	430	22,885	(193)	22,692
– corporate and commercial	5,560	6,487	14,166	3,837	937	30,987	(605)	30,382
– non-bank financial institutions	1,272	644	966	266	25	3,173	(22)	3,151
Loans and advances to banks held at amortised cost	5,534	231	1,015	2	–	6,782	(1)	6,781
Cash and balances at central banks	29,405	–	104	–	–	29,509	(1)	29,508
Items in the course of collection from other banks	224	–	–	–	–	224	–	224
Reverse repurchase agreements – non-trading	20,174	1,288	60	–	–	21,522	–	21,522
Financial investments	–	–	6	–	–	6	–	6
Prepayments, accrued income and other assets	18,845	445	1,189	7	3	20,489	(1)	20,488
– endorsements and acceptances	7	–	–	–	–	7	–	7
– accrued income and other	18,838	445	1,189	7	3	20,482	(1)	20,481
Debt instruments measured at fair value through other comprehensive income[2]	14,612	2,321	205	–	–	17,138	(8)	17,130
Out-of-scope for IFRS 9								
Trading assets	12,778	80	96	–	–	12,954	–	12,954
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,454	313	170	–	–	2,937	–	2,937
Derivatives	52,376	3,329	458	271	41	56,475	–	56,475
Total gross amount on balance sheet	182,539	16,744	19,879	4,483	1,436	225,081	(831)	224,250
Percentage of total credit quality	81.1%	7.4%	8.8%	2.0%	0.5%	100%		
Loan and other credit related commitments	74,669	12,315	9,478	1,373	57	97,892	(21)	97,871
Financial guarantees	544	154	125	198	30	1,051	(9)	1,042
In-scope for IFRS 9: Irrecoverable loan commitments and financial guarantees	75,213	12,469	9,603	1,571	87	98,943	(30)	98,913
Loan and other credit related commitments	591	681	388	4	–	1,664	–	1,664
Performance and other guarantees	2,962	2,301	2,596	312	142	8,313	(43)	8,270
Out-of-scope for IFRS 9: Revocable loan commitments and non-financial guarantees	3,553	2,982	2,984	316	142	9,977	(43)	9,934
Total nominal amount off-balance sheet	78,766	15,451	12,587	1,887	229	108,920	(73)	108,847
At 31 Dec 2020	261,305	32,195	32,466	6,370	1,665	334,001	(904)	333,097

1 *Of which EUR 16,827 million EUR guaranteed loans by Credit Logement as at 31 December 2020.*
2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Distribution of financial instruments by credit quality (continued)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	25,541	12,162	16,512	2,184	1,239	57,638	(682)	56,956
– personal[1]	17,376	2,519	1,879	107	472	22,353	(183)	22,170
– corporate and commercial	6,312	8,333	13,344	1,860	712	30,561	(452)	30,109
– non-bank financial institutions	1,853	1,310	1,289	217	55	4,724	(47)	4,677
Loans and advances to banks held at amortised cost	6,547	172	76	3	—	6,798	—	6,798
Cash and balances at central banks	19,323	50	90	—	—	19,463	—	19,463
Items in the course of collection from other banks	774	1	—	—	—	775	—	775
Reverse repurchase agreements – non-trading	42,851	3,010	112	—	—	45,973	—	45,973
Financial investments	—	—	6	—	—	6	—	6
Prepayments, accrued income and other assets	14,286	282	943	4	12	15,527	(1)	15,526
– endorsements and acceptances	18	—	—	—	—	18	—	18
– accrued income and other	14,268	282	943	4	12	15,509	(1)	15,508
Debt instruments measured at fair value through other comprehensive income[2]	12,762	1,863	621	—	1	15,247	(6)	15,241
Out-of-scope for IFRS 9								
Trading assets	14,677	50	110	—	—	14,837	—	14,837
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	1,152	265	1,797	—	—	3,214	—	3,214
Derivatives	34,818	5,267	5,630	9	—	45,724	—	45,724
Total gross amount on balance sheet	172,731	23,122	25,897	2,200	1,252	225,202	(689)	224,513
Percentage of total credit quality	76.7%	10.3%	11.5%	1.0%	0.5%	100.0%		
Loan and other credit related commitments	62,824	14,279	10,269	991	59	88,422	(23)	88,399
Financial guarantees	640	188	257	115	9	1,209	(5)	1,204
In-scope for IFRS 9: Irrecoverable loan commitments and financial guarantees	63,464	14,467	10,526	1,106	68	89,631	(28)	89,603
Loan and other credit related commitments[3]	348	646	266	11	—	1,271	—	1,271
Performance and other guarantees	3,503	1,906	3,400	364	83	9,256	(33)	9,223
Out-of-scope for IFRS 9: Revocable loan commitments and non-financial guarantees	3,851	2,552	3,666	375	83	10,527	(33)	10,494
Total nominal amount off-balance sheet	67,315	17,019	14,192	1,481	151	100,158	(61)	100,097
At 31 Dec 2019	240,046	40,141	40,089	3,681	1,403	325,360	(750)	324,610

1 *Of which EUR 15,678 million EUR guaranteed loans by* Crédit Logement *as at 31 December 2019 (Re-presented to include Individual entrepreneurs balance of EUR 2,591 million).*

2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to customers at amortised cost	26,137	8,737	16,576	4,203	1,392	57,045	(820)	56,225
– stage 1	26,132	8,559	11,877	1,615	–	48,183	(36)	48,147
– stage 2	5	178	4,699	2,588	–	7,470	(111)	7,359
– stage 3	–	–	–	–	1,350	1,350	(661)	689
– POCI[3]	–	–	–	–	42	42	(12)	30
Loans and advances to banks at amortised cost	5,534	231	1,015	2	–	6,782	(1)	6,781
– stage 1	5,493	231	1,014	2	–	6,740	(1)	6,739
– stage 2	41	–	1	–	–	42	–	42
– stage 3	–	–	–	–	–	–	–	–
– POCI[3]	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	68,648	1,733	1,359	7	3	71,750	(2)	71,748
– stage 1	68,648	1,722	1,358	–	–	71,728	(1)	71,727
– stage 2	–	11	1	7	–	19	–	19
– stage 3	–	–	–	–	3	3	(1)	2
– POCI[3]	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	74,669	12,315	9,478	1,373	57	97,892	(21)	97,871
– stage 1	74,658	11,725	8,200	381	–	94,964	(5)	94,959
– stage 2	11	590	1,278	992	–	2,871	(12)	2,859
– stage 3	–	–	–	–	57	57	(4)	53
– POCI[3]	–	–	–	–	–	–	–	–
Financial guarantees[1]	544	154	125	198	30	1,051	(9)	1,042
– stage 1	544	154	103	122	–	923	(2)	921
– stage 2	–	–	22	76	–	98	(5)	93
– stage 3	–	–	–	–	29	29	(2)	27
– POCI[3]	–	–	–	–	1	1	–	1
Total on balance sheet and off balance sheet excluding debt instrument at FVOCI	175,532	23,170	28,553	5,783	1,482	234,520	(853)	233,667
Debt instruments at FVOCI[2]	14,612	2,321	205	–	–	17,138	(8)	17,130
– stage 1	14,557	2,263	190	–	–	17,010	(2)	17,008
– stage 2	55	58	15	–	–	128	(6)	122
– stage 3	–	–	–	–	–	–	–	–
– POCI[3]	–	–	–	–	–	–	–	–
At 31 Dec 2020	190,144	25,491	28,758	5,783	1,482	251,658	(861)	250,797

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
3 *'POCI' Purchased or originated credit-impaired.*

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation (continued)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to customers at amortised cost	25,541	12,162	16,512	2,184	1,239	57,638	(682)	56,956
– stage 1	25,540	12,004	13,953	1,405	—	52,902	(43)	52,859
– stage 2	1	158	2,559	779	—	3,497	(50)	3,447
– stage 3	—	—	—	—	1,195	1,195	(578)	617
– POCI[3]	—	—	—	—	44	44	(11)	33
Loans and advances to banks at amortised cost	6,547	172	76	3	—	6,798	—	6,798
– stage 1	6,522	171	76	—	—	6,769	—	6,769
– stage 2	25	1	—	3	—	29	—	29
– stage 3	—	—	—	—	—	—	—	—
– POCI[3]	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	77,234	3,343	1,151	4	12	81,744	(1)	81,743
– stage 1	77,234	3,341	1,151	—	—	81,726	—	81,726
– stage 2	—	2	—	4	—	6	—	6
– stage 3	—	—	—	—	12	12	(1)	11
– POCI[3]	—	—	—	—	—	—	—	—
Total on balance sheet excluding debt instrument at FVOCI	109,322	15,677	17,739	2,191	1,251	146,180	(683)	145,497
Loan and other credit-related commitments	62,824	14,279	10,269	991	59	88,422	(23)	88,399
– stage 1	62,824	14,149	9,608	420	—	87,001	(6)	86,995
– stage 2	—	130	661	571	—	1,362	(3)	1,359
– stage 3	—	—	—	—	59	59	(14)	45
– POCI[3]	—	—	—	—	—	—	—	—
Financial guarantees[1]	640	188	257	115	9	1,209	(5)	1,204
– stage 1	640	188	218	75	—	1,121	(1)	1,120
– stage 2	—	—	39	40	—	79	(4)	75
– stage 3	—	—	—	—	6	6	—	6
– POCI[3]	—	—	—	—	3	3	—	3
Total on balance sheet and off balance sheet excluding debt instrument at FVOCI	172,786	30,144	28,265	3,297	1,319	235,811	(711)	235,100
Debt instruments at FVOCI[2]	12,762	1,863	621	—	1	15,247	(6)	15,241
– stage 1	12,707	1,853	588	—	—	15,148	(5)	15,143
– stage 2	55	10	33	—	—	98	(1)	97
– stage 3	—	—	—	—	—	—	—	—
– POCI[3]	—	—	—	—	1	1	—	1
At 31 Dec 2019	185,548	32,007	28,886	3,297	1,320	251,058	(717)	250,341

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
3 *'POCI' Purchased or originated credit-impaired.*

Impairment assessment

Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

Impaired loans – identification of loss events

The criteria used by HSBC Continental Europe to determine that a loan is impaired include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial distress procedure;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees; and
- a deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Impairment of loans and advances

For details of HSBC Continental Europe's policy concerning impairments of loans and advances, please refer to notes in the Consolidated Financial Statements.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39. The following tables show the allocation of loans and ECL allowance according to the kind of loans and nature of counterparties.

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

	31 Dec 2020		31 Dec 2019	
	Gross carrying/ nominal amount	**Allowance/ provision for ECL[1]**	Gross carrying/ nominal amount	Allowance/ provision for ECL[1]
	€m	**€m**	€m	€m
Loans and advances to customers at amortised cost:	**57,045**	**(820)**	57,638	(682)
– personal[2]	**22,885**	**(193)**	22,353	(183)
– corporate and commercial	**30,987**	**(605)**	30,561	(452)
– non-bank financial institutions	**3,173**	**(22)**	4,724	(47)
Loans and advances to banks at amortised cost	**6,782**	**(1)**	6,798	—
Other financial assets measured at amortised costs:	**71,750**	**(2)**	81,744	(1)
– cash and balances at central banks	**29,509**	**(1)**	19,463	—
– items in the course of collection from other banks	**224**	**—**	775	—
– reverse repurchase agreements – non-trading	**21,522**	**—**	45,973	—
– financial investments[3]	**6**	**—**	6	—
– prepayments, accrued income and other assets[4]	**20,489**	**(1)**	15,527	(1)
Total gross carrying amount on balance sheet	**135,577**	**(823)**	146,180	(683)
Loans and other credit related commitments:	**97,892**	**(21)**	88,422	(23)
– personal	**1,352**	**(1)**	1,189	(1)
– corporate and commercial	**41,102**	**(12)**	36,798	(21)
– financial	**55,438**	**(8)**	50,435	(1)
Financial guarantees[5]:	**1,051**	**(9)**	1,209	(5)
– personal	**26**	**—**	30	—
– corporate and commercial	**531**	**(9)**	573	(5)
– financial	**494**	**—**	606	—
Total nominal amount off-balance sheet[6]	**98,943**	**(30)**	89,631	(28)
Total nominal amount on balance sheet and off-balance sheet	**234,520**	**(853)**	235,811	(711)

	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')	**19,139**	**(8)**	16,967	(6)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Of which EUR 16,827 million guaranteed by Crédit Logement as at 31 December 2020 (2019: EUR 15,678 million, re-presented to include individual entrepreneurs balance of EUR 2,591 million).*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 167 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 167 includes both financial and non-financial assets.*
5 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
6 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
7 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

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

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

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

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

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

Stage 2 days past due analysis at 31 December 2020

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

1 Days past due ('DPD'). Current 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 2019 (continued)

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost:	52,902	3,497	1,195	44	57,638	(43)	(50)	(578)	(11)	(682)	0.1	1.4	48.4	25.0	1.2
– personal[3]	20,769	1,112	472	—	22,353	(4)	(21)	(158)	—	(183)	—	1.9	33.5	—	0.8
– corporate and commercial	27,518	2,331	668	44	30,561	(36)	(28)	(377)	(11)	(452)	0.1	1.2	56.4	25.0	1.5
– non-bank financial institutions	4,615	54	55	—	4,724	(3)	(1)	(43)	—	(47)	0.1	1.9	78.2	—	1.0
Loans and advances to banks at amortised cost	6,769	29	—	—	6,798	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	81,726	6	12	—	81,744	—	—	(1)	—	(1)	—	—	8.3	—	—
Loan and other credit-related commitments	87,001	1,362	59	—	88,422	(6)	(3)	(14)	—	(23)	—	0.2	23.7	—	—
– personal	1,145	41	3	—	1,189	—	(1)	—	—	(1)	—	2.4	—	—	0.1
– corporate and commercial	35,519	1,223	56	—	36,798	(5)	(2)	(14)	—	(21)	—	0.2	25.0	—	0.1
– financial	50,337	98	—	—	50,435	(1)	—	—	—	(1)	—	—	—	—	—
Financial guarantees[4]	1,121	79	6	3	1,209	(1)	(4)	—	—	(5)	0.1	5.1	—	—	0.4
– personal	29	—	1	—	30	—	—	—	—	—	—	—	—		
– corporate and commercial	486	79	5	3	573	(1)	(4)	—	—	(5)	0.2	5.1	—		0.9
– financial	606	—	—	—	606	—	—	—	—	—	—	—	—		
At 31 Dec 2019	229,519	4,973	1,272	47	235,811	(50)	(57)	(593)	(11)	(711)	—	1.1	46.6	23.4	0.3

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *Purchased or originated credit-impaired ('POCI').*
3 *Of which EUR 15,678 million guaranteed by Crédit Logement as at 31 December 2019 (Re-presented to include individual entrepreneurs balance of EUR 2,591 million).*
4 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Stage 2 days past due analysis at 31 December 2019 (continued)

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*
		1 to 29 DPD[1]	*30 and > DPD[1]*		*1 to 29 DPD[1]*	*30 and > DPD[1]*		*1 to 29 DPD[1]*	*30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost	3,497	*60*	*44*	(50)	*(1)*	*(3)*	1.4	*1.7*	*6.8*
– personal	1,112	*44*	*38*	(21)	*(1)*	*(1)*	1.9	*2.3*	*2.6*
– corporate and commercial	2,331	*16*	*6*	(28)	—	*(2)*	1.2	—	*33.3*
– non-bank financial institutions	54	—	—	(1)	—	—	1.9	—	—
Loans and advances to banks at amortised cost	29	—	—	—	—	—	0	—	—
Other financial assets measured at amortised cost	6	—	—	—	—	—	0	—	—

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

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk with respect to financial instruments, before taking account of any collateral held or other credit enhancements, unless such credit enhancements meet offsetting requirements defined in the accounting policies and principles. For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the guarantee were called upon. For loan commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the maximum amount of the committed facilities.

Maximum exposure to credit risk

	31 Dec 2020		
	Maximum exposure €m	Offset €m	Net €m
Loans and advances to customers held at amortised cost	**56,225**	**—**	**56,225**
– personal[1]	**22,692**	**—**	**22,692**
– corporate and commercial	**30,382**	**—**	**30,382**
– non-bank financial institutions	**3,151**	**—**	**3,151**
Loans and advances to banks at amortised cost	**6,781**	**(242)**	**6,539**
Other financial assets held at amortised cost	**71,817**	**(2,638)**	**69,179**
– cash and balances at central banks	**29,508**	**—**	**29,508**
– items in the course of collection from other banks	**224**	**—**	**224**
– reverse repurchase agreements – non-trading	**21,522**	**(2,638)**	**18,884**
– financial investments	**6**	**—**	**6**
– prepayments, accrued income and other assets	**20,557**	**—**	**20,557**
Assets held for sale	**3**	**—**	**3**
Derivatives	**56,475**	**(56,201)**	**274**
Total on-balance sheet exposure to credit risk	**191,301**	**(59,081)**	**132,220**
Total off-balance sheet	**108,847**	**—**	**108,847**
– financial and other guarantees[2]	**9,312**	**—**	**9,312**
– loan and other credit-related commitments	**99,535**	**—**	**99,535**
Total on and off-balance sheet amount	**300,148**	**(59,081)**	**241,067**

1 *Of which EUR 16,827 million guaranteed by Crédit Logement as at 31 December 2020.*
2 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 30.*

Maximum exposure to credit risk

	31 Dec 2019		
	Maximum exposure €m	Offset €m	Net €m
Loans and advances to customers held at amortised cost	56,956	—	56,956
– personal[1]	22,170	—	22,170
– corporate and commercial	30,109	—	30,109
– non-bank financial institutions	4,677	—	4,677
Loans and advances to banks at amortised cost	6,798	(446)	6,352
Other financial assets held at amortised cost	81,836	(9,327)	72,509
– cash and balances at central banks	19,463	—	19,463
– items in the course of collection from other banks	775	—	775
– reverse repurchase agreements – non-trading	45,973	(9,327)	36,646
– financial investments	6	—	6
– prepayments, accrued income and other assets	15,619	—	15,619
Assets held for sale	3	—	3
Derivatives	45,724	(45,217)	507
Total on-balance sheet exposure to credit risk	191,317	(54,990)	136,327
Total off-balance sheet	100,097	—	100,097
– financial and other guarantees[2]	10,427	—	10,427
– loan and other credit-related commitments	89,670	—	89,670
Total on and off-balance sheet amount	291,414	(54,990)	236,424

1 *Of which EUR 15,678 million guaranteed by Crédit Logement as at 31 December 2019, re-presented to include individual entrepreneurs balance of EUR 2,591 million.*
2 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 30.*

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 and model deficiencies.

Methodology

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcomes. Three of these scenarios are drawn from consensus. These include a Central scenario, representing a most likely outcome, a Downside and an Upside scenario that represent meaningfully different outcomes from the Central. The Central scenario is created using the average of a panel of external forecasters ('the consensus') while consensus Upside and Downside scenarios are created with reference to distributions that capture forecasters views of the entire range of outcomes. Management has chosen to use a fourth scenario to represent their view of severe downside risks. The use of an additional scenario is in line with HSBC's Forward Economic Guidance ('FEG') methodology and has been used over the course of 2020.

Description of economic scenarios

The economic assumptions presented in this section have been formed by HSBC with reference to external forecasts specifically for the purpose of calculating ECL.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes. The scenarios used to calculate ECL are described below.

The consensus Central scenario

The Central scenario features an improvement in economic growth in 2021 as activity and employment gradually return to the levels experienced prior to the outbreak of Covid-19.

Despite the sharp contraction in activity, government fiscal support in advanced economies played a crucial role in averting significant financial distress. At the same time, central banks implemented a variety of measures, which included lowering their main policy interest rates, implementing emergency support measures for funding markets, and either restarting or increasing quantitative easing programmes in order to support economies and the financial system.

The key features of our Central scenario are:

- Growth in GDP in 2021. Economic activity will recover, supported by a successful rollout of the vaccination programme and effective non-pharmacological measures to contain the virus, which will lead to a significant decline in infections by the end of 2021.
- Government support programmes will continue to provide support to labour markets and households in 2021. We expect a gradual reversion of the unemployment rate to pre-crisis levels over the course of the projection period as a result of economic recovery and due to the orderly withdrawal of fiscal support.
- Fiscal support in 2020 led to large deficits and a significant increase in public debt. Fiscal support is expected to continue as needed and deficits are expected to reduce gradually over the projection period. Sovereign debt levels will remain high but our Central scenario does not assume fiscal austerity.
- Interest rates will remain at current levels for an extended period and will increase very modestly towards the end of our projection period. Central banks – notably the ECB – will continue to provide assistance through their asset purchase programmes as needed.

The consensus Upside scenario

Compared with the consensus Central scenario, the consensus Upside scenario features a faster recovery in economic activity during the first two years, before converging to longer-run trends..

The scenario relies on several key upside risk themes. These include the orderly and rapid global abatement of Covid-19 via successful containment and prompt deployment of a vaccine; continued support from fiscal and monetary policy and smooth relations between the UK and the EU which enables the two parties to swiftly reach a comprehensive agreement on trade and services.

Downside scenarios

The year 2021 is expected to be a period of economic recovery, but the progression and management of the pandemic continue to weigh on global growth. A new and more contagious strain of the virus increases the transmission rate in the UK and resulted in stringent restrictions to mobility towards the year end. This viral strain observed in the UK, together with aggressive strains observed in other countries including South Africa and Brazil, introduce the risk that transmission may increase significantly within the national borders of a number of countries in 2021 and also raise concerns around the efficacy of vaccines as the virus mutates. Some countries may keep significant restrictions to mobility in place for an extended period of time, at least until critical segments of the population can be inoculated. Further risks to international travel also arise.

A number of vaccines have been developed and approved for use at a rapid pace and plans to inoculate significant proportions of national populations in 2021 are a clear positive for economic recovery. While we expect vaccination programmes to be successful, governments and healthcare authorities face country-specific challenges that could affect the speed and spread of vaccinations. These challenges include the logistics of inoculating a significant proportion of national populations within a limited timeframe and the public acceptance of vaccines. On a global level, supply challenges could affect the pace of roll-out and the efficacy of vaccines is yet to be determined. Government support programmes have provided households and firms with significant support. An inability or unwillingness to continue with such support or the untimely withdrawal of support present a downside risk to growth.

While Covid-19 and related risks dominate the economic outlook, geopolitical risks also present a threat. The Trade and Co-operation Agreement between the UK and EU has averted a disorderly UK departure from the EU, but the risk of future disagreements remain, which may hinder the ability to reach a more comprehensive agreement on trade and services.

The consensus Downside scenario

In the consensus Downside scenario, economic recovery is considerably weaker compared with the Central scenario. GDP growth remains weak, unemployment rates stay elevated and asset and commodity prices fall before gradually recovering towards their long-run trends. Further outbreaks of Covid-19, coupled with delays in vaccination programmes, lead to longer-lasting restrictions on economic activity. In this scenario, other global risks also increase and drive increased risk-aversion in asset markets.

Additional Downside scenario

An additional Downside scenario that features a global recession has been created to reflect management's view of severe risks. In this scenario, infections rise in 2021 and setbacks to vaccine programmes imply that successful roll-out of vaccines only occurs towards the end of 2021 and it takes until the end of 2022 for the pandemic to come to an end. The scenario also assumes governments and central banks are unable to significantly increase fiscal and monetary programmes, which results in abrupt corrections in labour and asset markets.

Please refer to the HSBC Bank plc *Annual Report and Accounts 2020* for more detail on the key macroeconomic variables and the probabilities assigned in the different scenarios.

Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. The level of estimation uncertainty and judgement has increased during 2020 as a result of the economic effects of the Covid-19 outbreak, including in relation to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts than before the pandemic. The key judgements are the length of time over which the economic effects of the pandemic will occur, the speed and shape of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of roll-out and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together represent a very high degree of estimation uncertainty, particularly in assessing Downside scenarios;

- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the Covid-19 outbreak. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers who could represent significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues given muted default experience to date.

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge of model outputs. The most severe projections at 31 December 2020 of macroeconomic variables are outside the historical observations on which IFRS 9 models have been built and calibrated to operate. Moreover, the complexities of country-specific governmental support programmes, the impacts on customer behaviours and the unpredictable pathways of the pandemic have never been modelled. Consequently, the group's IFRS 9 models, in some cases, generate outputs that appear overly sensitive when compared with other economic and credit metrics. Governmental support programmes and customer payment reliefs have dislocated the correlation between economic conditions and default rates on which models are based. Management judgemental adjustments are required to ensure that an appropriate amount of ECL impairment is recognised.

We have internal governance in place to regularly monitor management judgemental adjustments and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. During 2020 the composition of modelled ECL and management judgemental adjustments changed significantly, reflecting the path of the pandemic, containment efforts and government support measures, and this is expected to continue to be the case until economic conditions improve. Wider-ranging model changes will take time to develop and need more real data on which models can rely. Models will be revisited over time once the full impacts of Covid-19 are observed. Therefore, we anticipate significant management judgemental adjustments for the foreseeable future.

Please refer to the *HSBC Bank plc Annual Report and Accounts 2020* for more detail on management judgemental adjustments to ECL and sensitivity analysis.

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

The following disclosure provides a reconciliation of the Group’s gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees. The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The net remeasurement of ECL arising from stage transfers represents the variation in ECL due to these transfers.

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

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

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

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

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	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2019	80,597	(31)	4,270	(47)	1,016	(527)	19	(3)	85,902	(608)
Transfers of financial instruments	(641)	(25)	390	29	251	(4)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(3,964)	4	3,964	(4)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	3,322	(29)	(3,322)	29	—	—	—	—	—	—
– Transfers to Stage 3	—	—	(283)	7	283	(7)	—	—	—	—
– Transfers from Stage 3	1	—	31	(3)	(32)	3	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	19	—	(12)	—	(1)	—	—	—	6
New financial assets originated or purchased	32,705	(19)	—	—	—	—	3	(2)	32,708	(21)
Asset derecognised (including final repayments)	(9,410)	2	(755)	8	(242)	87	(8)	2	(10,415)	99
Changes to risk parameters – further lending/repayments	(8,530)	12	(266)	(2)	185	35	9	12	(8,602)	57
Changes to risk parameters – credit quality	—	8	—	(22)	—	(233)	—	(26)	—	(273)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(98)	98	(88)	88	(186)	186
Credit related modifications that resulted in derecognition	—	—	—	—	(3)	2	—	—	(3)	2
Foreign exchange	35	—	3	—	—	—	—	—	38	—
Others	1,377	(5)	507	2	13	(1)	(1)	—	1,896	(4)
Transfer-in[2]	7,555	(11)	818	(13)	138	(48)	113	(82)	8,624	(154)
At 31 Dec 2019	103,688	(50)	4,967	(57)	1,260	(592)	47	(11)	109,962	(710)
ECL release/(charge) for the period		24		(26)		(111)		(13)		(126)
Add: Recoveries										4
Add/(less): Others										—
Total ECL release/(charge) for the period										(122)

	At 31 Dec 2019		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	109,962	(710)	(122)
Other financial assets measured at amortised cost	81,744	(1)	—
Non-trading reverse purchase agreement commitments	44,105	—	—
Performance and other guarantees not considered for IFRS 9			(6)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	235,811	(711)	(128)
Debt instruments measured at FVOCI	16,967	(6)	—
Total allowance for ECL/total income statement ECL charge for the period	252,778	(717)	(128)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Transfer-In includes amounts related to the acquisition of seven branches: Madrid branch, Milan branch, Ireland branch, Netherlands branch, Belgium branch, Prague branch with effect from 1 February 2019 and Luxembourg branch from 1 March 2019.*

Credit impaired loans

HSBC determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition.

The loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Renegotiated loans and forbearance

A range of forbearance strategies is employed in order to improve the management of customer relationships by avoiding default, of the customer where possible or the calling of guarantees obtained whilst maximising the recoveries of the amounts due. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other forms of loan modifications and re-ageing.

HSBC Continental Europe's policies and practices are based on criteria which seek to enable wherever possible that the repayment is likely to continue. These typically involve the granting of revised loan terms and conditions. Loan forbearance is only granted in situations where the customer has showed a willingness to repay their loan and is expected to be able to meet the revised obligations.

The contractual terms of a loan may be modified for a number of reasons, including changes in market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. We classify and report loans on which such concessions have been granted as 'renegotiated loans' when their contractual payment terms have been modified as a result of serious concerns on the capacity of the borrower to repay their contractual outstandings.

Identifying renegotiated loans

Concessions, on loans made to customers, which do not affect the payment structure or basis of repayment, such as temporary or permanent waivers granted by the bank to take advantage of the non-respect of financial or security covenants, do not directly provide concessionary relief to customers in terms of their ability to service obligations as they fall due and are therefore not included in this classification.

For retail lending, our credit risk management policy sets out restrictions on the number and frequency of renegotiations, the minimum period an account must have been opened before any renegotiation can be considered and the number of qualifying payments that must be received. The application of this policy varies according to the nature of the market, the product and the management of customer relationships through the occurrence of exceptional events.

Credit quality classification of renegotiated loans

Under IFRSs, an entity is required to assess whether there is objective evidence that financial assets are impaired at the end of each reporting period. A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated.

A renegotiated loan is presented as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment.

The renegotiated loan will continue to be disclosed as impaired, for at least one year and until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

For retail lending the minimum period of payment performance required depends on the nature of loans in the portfolio, but is typically not less than 12 months. Where portfolios have more significant levels of forbearance activity the minimum repayment performance period required may be substantially more.

Renegotiated loans and recognition of impairment allowances

For retail lending, renegotiated loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the higher rates of losses often encountered in these segments.

In the corporate and commercial sectors, Renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessment. A distressed restructuring is classified as an impaired loan. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in renegotiated loans.

Renegotiated loans and advances to customers at amortised costs by stage allocation

	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Gross carrying amount					
Personal	–	–	68	–	68
– first lien residential mortgages	–	–	49	–	49
– other personal lending	–	–	19	–	19
Wholesale	4	155	135	43	337
– corporate and commercial	4	155	135	43	337
– non-bank financial institutions	–	–	–	–	–
At 31 Dec 2020	4	155	203	43	405
Allowance for ECL					
Personal	–	–	(13)	–	(13)
– first lien residential mortgages	–	–	(10)	–	(10)
– other personal lending	–	–	(3)	–	(3)
Wholesale	–	(4)	(62)	(12)	(78)
– corporate and commercial	–	(4)	(62)	(12)	(78)
– non-bank financial institutions	–	–	–	–	–
At 31 Dec 2020	–	(4)	(75)	(12)	(91)

Renegotiated loans and advances to customers at amortised costs by stage allocation (continued)

	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI €m	Total €m
Gross carrying amount					
Personal	—	—	51	—	51
– first lien residential mortgages	—	—	36	—	36
– other personal lending	—	—	15	—	15
Wholesale	134	48	103	43	328
– corporate and commercial	134	48	103	43	328
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2019	134	48	154	43	379
Allowance for ECL					
Personal	—	—	(14)	—	(14)
– first lien residential mortgages	—	—	(10)	—	(10)
– other personal lending	—	—	(4)	—	(4)
Wholesale	(2)	—	(46)	(10)	(58)
– corporate and commercial	(2)	—	(46)	(10)	(58)
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2019	(2)	—	(60)	(10)	(72)

Customer relief programmes

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

The following table presents the number of customers and drawn loan values of customers under these schemes and schemes independently implemented by the Group at 31 December 2020.

Personal lending

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

Wholesale lending

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

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

HSBC Continental Europe has been taking exceptional measures to protect itself and its clients and participate in the prevention of an economic collapse, in particular through a quasi-systematic six month deferral of loan repayments for its smaller Commercial Banking clients, with limited exclusions or restrictions. For its personal, professional and entrepreneur client base within the business line – Wealth and Personal Banking concessions were also provided through a 3-6 months' interest only repayment scheme. Granted concessions were assessed though the bank punctual payment flexibility with additional conservatism (this includes individual assessment of the customer Income/ expenditure, quality, past behaviour). For the corporate segments, deferral of repayments has been considered on a case-by-case basis. During August 2020, an additional period of six month deferral of loan repayment has also been proposed to customers in the Café/Hotel/Restaurant segment following on an industry-wide scheme proposed by the government in order to support this sector particularly hit by the lockdowns. At the beginning of the crises, new money financing has been granted to our customers, either state-guaranteed or not (depending on the individual situation). For Commercial Banking, 5,185 requests for *Pret Garanti d'Etat ('PGE')* have been granted.

For Large Corporate and Global Banking clients, the number of *PGEs* is smaller but the amount is larger. An extension of one year during which the client pays only the interest of the loan has been applied to the mechanism of the *PGEs*, and customers can elect for a *PGE* until the end of 2020. New money financing have been approved for large corporates to strengthen their short to mid-term liquidity at the beginning of the crisis, usually to support their rating or as a simple bridge to a refinancing in the debt market. Some of these loans have been repaid at the end of the year.

Wholesale lending

These sections provide further detail on wholesale loans and advances to customers and banks.

Total wholesale lending for loans and advances to banks and customers by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	**23,521**	**6,529**	**895**	**42**	**30,987**	**(25)**	**(82)**	**(486)**	**(12)**	**(605)**
– Industrial	**5,145**	**1,426**	**129**	**13**	**6,713**	**(5)**	**(14)**	**(79)**	**(4)**	**(102)**
– Commercial, international trade	**11,482**	**3,980**	**519**	**29**	**16,010**	**(10)**	**(47)**	**(321)**	**(8)**	**(386)**
– Commercial real estate	**4,251**	**876**	**55**	**—**	**5,182**	**(5)**	**(14)**	**(23)**	**—**	**(42)**
– Other property-related	**310**	**43**	**80**	**—**	**433**	**(1)**	**(1)**	**(35)**	**—**	**(37)**
– Governments	**1,106**	**—**	**—**	**—**	**1,106**	**(1)**	**—**	**—**	**—**	**(1)**
– Others	**1,227**	**204**	**112**	**—**	**1,543**	**(3)**	**(6)**	**(28)**	**—**	**(37)**
Non-bank financial institutions	**3,014**	**134**	**25**	**—**	**3,173**	**(2)**	**(1)**	**(19)**	**—**	**(22)**
Loans and advances to banks	**6,740**	**42**	**—**	**—**	**6,782**	**(1)**	**—**	**—**	**—**	**(1)**
At 31 Dec 2020	**33,275**	**6,705**	**920**	**42**	**40,942**	**(28)**	**(83)**	**(505)**	**(12)**	**(628)**
Corporate and commercial	27,518	2,331	668	44	30,561	(36)	(28)	(377)	(11)	(452)
– Industrial	6,479	550	88	42	7,159	(8)	(6)	(62)	(9)	(85)
– Commercial, international trade	13,138	947	437	2	14,524	(12)	(13)	(249)	(1)	(275)
– Commercial real estate	4,814	785	55	—	5,654	(10)	(9)	(20)	(1)	(40)
– Other property-related	423	20	76	—	519	(1)	—	(36)	—	(37)
– Governments	933	—	—	—	933	—	—	—	—	—
– Others	1,731	29	12	—	1,772	(5)	—	(10)	—	(15)
Non-bank financial institutions	4,615	54	55	—	4,724	(3)	(1)	(43)	—	(47)
Loans and advances to banks	6,769	29	—	—	6,798	—	—	—	—	—
At 31 Dec 2019	38,902	2,414	723	44	42,083	(39)	(29)	(420)	(11)	(499)

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	**39,071**	**2,478**	**83**	**1**	**41,633**	**(5)**	**(10)**	**(6)**	**—**	**(21)**
Financial	**55,473**	**459**	**—**	**—**	**55,932**	**(1)**	**(7)**	**—**	**—**	**(8)**
At 31 Dec 2020	**94,544**	**2,937**	**83**	**1**	**97,565**	**(6)**	**(17)**	**(6)**	**—**	**(29)**

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

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution (continued)

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	36,005	1,302	61	3	37,371	(6)	(6)	(14)	—	(26)
Financial	50,943	98	—	—	51,041	(1)	—	—	—	(1)
At 31 Dec 2019	86,948	1,400	61	3	88,412	(7)	(6)	(14)	—	(27)

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

Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral by stage

	31 Dec 2020		31 Dec 2019	
	Gross carrying/nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	€m	%	€m	%
Stage 1				
Not collateralised	**57,962**	**–**	59,452	(0.1)
Fully collateralised	**2,733**	**(0.1)**	4,118	(0.1)
LTV ratio:				
– less than 50%	**815**	**(0.1)**	940	–
– 51% to 75%	**1,002**	**–**	1,419	(0.1)
– 76% to 90%	**515**	**–**	888	(0.1)
– 91% to 100%	**401**	**–**	871	(0.1)
Partially collateralised (A):	**3,759**	**(0.1)**	2,265	(0.1)
– *collateral value on A*	***3,112***		*1,786*	
Total	**64,454**	**–**	65,835	(0.1)
Stage 2				
Not collateralised	**4,673**	**(1.1)**	2,698	(0.7)
Fully collateralised	**707**	**(1.0)**	173	(1.7)
LTV ratio:				
– less than 50%	**368**	**(0.8)**	21	–
– 51% to 75%	**50**	**(2.0)**	54	–
– 76% to 90%	**23**	**–**	13	–
– 91% to 100%	**266**	**(1.1)**	85	(3.5)
Partially collateralised (B):	**2,818**	**(0.6)**	65	–
– *collateral value on B*	***2,453***		*38*	
Total	**8,198**	**(0.9)**	2,936	(0.8)
Stage 3				
Not collateralised	**620**	**(63.4)**	524	(67.6)
Fully collateralised	**14**	**(64.3)**	36	(27.8)
LTV ratio:				
– less than 50%	**7**	**(57.1)**	11	(36.4)
– 51% to 75%	**4**	**(75.0)**	14	(28.6)
– 76% to 90%	**2**	**(50.0)**	9	(11.1)
– 91% to 100%	**1**	**(84.0)**	2	(50.0)
Partially collateralised (C):	**214**	**(27.1)**	92	(22.8)
– *collateral value on C*	***152***		*11*	
Total	**848**	**(54.2)**	652	(59.0)
POCI				
Not collateralised	**39**	**(23.1)**	39	(20.5)
Fully collateralised	**–**	**–**	–	–
LTV ratio:				
– less than 50%	**–**	**–**	–	–
– 51% to 75%	**–**	**–**	–	–
– 76% to 90%	**–**	**–**	–	–
– 91% to 100%	**–**	**–**	–	–
Partially collateralised (D):	**3**	**(100.0)**	5	(40.0)
– *collateral value on D*	***3***		*4*	
Total	**42**	**(28.6)**	44	(22.7)
At 31 Dec	**73,542**	**(0.8)**	69,467	(0.7)

Personal lending

Total personal lending

We provide a broad range of secured and unsecured personal lending products to meet individual customer needs. Personal lending includes advances to individual customers for asset purchases such as residential property where the loans are secured by *Crédit Logement Guarantee* or by the assets being acquired. We also offer consumer lending products such as overdrafts and personal loans which are mainly unsecured.

Total personal lending for loans and advances to customers at amortised costs by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
First lien residential mortgages	**2,914**	**173**	**196**	**–**	**3,283**	**(1)**	**(7)**	**(75)**	**–**	**(83)**
Other personal lending	**18,734**	**634**	**234**	**–**	**19,602**	**(8)**	**(21)**	**(81)**	**–**	**(110)**
– other[1]	**18,469**	**614**	**219**	**–**	**19,302**	**(6)**	**(18)**	**(80)**	**–**	**(104)**
– credit cards	**265**	**20**	**15**	**–**	**300**	**(2)**	**(3)**	**(1)**	**–**	**(6)**
– second lien residential mortgages	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 Dec 2020	**21,648**	**807**	**430**	**–**	**22,885**	**(9)**	**(28)**	**(156)**	**–**	**(193)**

Total personal lending for loans and other credit-related commitments and financial guarantees[2] by stage distribution

	Gross carrying amount					**Allowance for ECL**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Personal lending										
At 31 Dec 2020	**1,343**	**32**	**3**	**—**	**1,378**	**(1)**	**—**	**—**		**(1)**

1 *Of which EUR 16,827 million guaranteed by* Crédit Logement *as at 31 December 2020.*
2 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Total personal lending for loans and advances to customers at amortised costs by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
First lien residential mortgages	3,033	265	196	—	3,494	(1)	(6)	(76)	—	(83)
Other personal lending	17,736	847	276	—	18,859	(3)	(15)	(82)	—	(100)
– other[1]	17,440	817	258	—	18,515	(2)	(13)	(82)	—	(97)
– credit cards	296	30	18	—	344	(1)	(2)	—	—	(3)
– second lien residential mortgages	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2019	20,769	1,112	472	—	22,353	(4)	(21)	(158)	—	(183)

Total personal lending for loans and other credit-related commitments and financial guarantees[2] by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Personal lending										
At 31 Dec 2019	1,174	41	4	—	1,219	—	—	—	—	—

1 *Of which EUR 15,678 million guaranteed by* Crédit Logement *as at 31 December 2019 (Re-presented to include individual entrepreneurs balance of EUR 2,591 million).*
2 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, bridge loans and regulated loans. HSBC Continental Europe has specific LTV thresholds and debt-to-income ratios in place for this type of lending, which are compliant with the overall Group policy, strategy and risk appetite.

Collateral and other credit enhancements held

The most common method of mitigating credit risk for personal lending is to take collateral. For HSBC Continental Europe Retail a mortgage over the property is often taken to help secure claims. Another common form of security is guarantees provided by a third-party company; *Crédit Logement (a Société de Financement* regulated by the French Regulator *ACPR*). *Crédit Logement* guarantees 100 per cent of the amount of the residential real estate loan in case of default. Loans may also be made against a pledge of eligible marketable securities or cash.

The tables below show residential mortgage lending including off-balance sheet loan commitments by level of collateral. They provide a quantification of the value of fixed charges we hold over borrowers' specific assets in the event of the borrower failing to meet its contractual obligations.

The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date divided by the value of collateral.

The value of mortgage collateral is updated on a monthly basis using the notary price index ('INSEE'). In addition professional valuations are obtained for high value mortgage loans (>3m) annually. Valuations of financial collateral are updated on a daily basis for those portfolios held by HSBC Continental Europe and on annual basis for those held externally. The collateral valuation excludes any cost adjustments linked to obtaining and selling the collateral and, in particular, loans shown as not collateralised or partly collateralised may also benefit from other forms of credit mitigants.

Personal lending: residential mortgage loans including loan commitments by level of collateral

	31 Dec 2020		31 Dec 2019	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	€m	**%**	€m	%
Stage 1				
Fully collateralised	**2,825**	**–**	2,918	–
LTV ratio:				
– less than 50%	**1,406**	**–**	1,307	–
– 51% to 60%	**597**	**–**	622	–
– 61% to 70%	**443**	**–**	495	–
– 71% to 80%	**266**	**–**	340	–
– 81% to 90%	**78**	**–**	105	–
– 91% to 100%	**35**	**–**	49	–
Partially collateralised (A):	**89**	**–**	115	–
LTV ratio:				
– 101% to 110%	**23**	**–**	32	–
– 111% to 120%	**13**	**–**	21	–
– greater than 120%	**53**	**–**	62	–
– *collateral value on A*	***84***		*111*	
Total	**2,914**	**–**	3,033	–
Stage 2				
Fully collateralised	**161**	**(3.1)**	250	(1.6)
LTV ratio:				
– less than 50%	**93**	**(2.2)**	123	(0.8)
– 51% to 60%	**29**	**(3.4)**	41	(2.4)
– 61% to 70%	**22**	**(4.5)**	35	(2.9)
– 71% to 80%	**13**	**(7.7)**	37	(2.7)
– 81% to 90%	**3**	**–**	10	–
– 91% to 100%	**1**	**–**	4	–
Partially collateralised (B):	**12**	**(25.0)**	16	(6.3)
LTV ratio:				
– 101% to 110%	**4**	**(25.0)**	6	(16.7)
– 111% to 120%	**3**	**(33.3)**	3	–
– greater than 120%	**5**	**(20.0)**	7	–
– *collateral value on B*	***11***		*15*	
Total	**173**	**(4.6)**	266	(1.9)
Stage 3				
Fully collateralised	**124**	**(30.6)**	123	(27.6)
LTV ratio:				
– less than 50%	**50**	**(24.0)**	68	(30.9)
– 51% to 60%	**22**	**(31.8)**	20	(20.0)
– 61% to 70%	**28**	**(28.6)**	12	(25.0)
– 71% to 80%	**14**	**(42.9)**	12	(25.0)
– 81% to 90%	**5**	**(60.0)**	5	(20.0)
– 91% to 100%	**5**	**(40.0)**	6	(33.3)
Partially collateralised (C):	**72**	**(50.0)**	74	(56.8)
LTV ratio:				
– 101% to 110%	**11**	**(54.5)**	32	(53.1)
– 111% to 120%	**9**	**(66.7)**	17	(64.7)
– greater than 120%	**52**	**(46.2)**	25	(56.0)
– *collateral value on C*	***39***		*58*	
Total	**196**	**(37.8)**	197	(38.6)
At 31 Dec	**3,283**	**(2.5)**	3,496	(2.3)

Counterparty Credit Risk

Counterparty Credit Risk exposure

Counterparty credit risk ('CCR') means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The Calculation of the Counterparty Credit Risk Exposure

HSBC Continental Europe applies the Internal Model Method ('IMM') of CRR Article 283 to determine the CCR exposures for OTC transactions.

SFTs are all excluded from the IMM, capital requirements for those products shall remain under the Title II chapter 4 method as allowed by CRR article 111(2).

Exchange Traded Derivatives ('ETDs') are also all excluded, the Mark-to-Market Method of CRR Article 274 is then used.

Apart from that, a small portion of OTC products, the most complex ones, shall remain outside of the scope because of modelling issues. The Mark-to-Market Method is then used.

Framework/Limits and Monitoring

CCR management in HSBC Continental Europe is performed through different levels:

- Credit authority is held by Wholesale Credit Risk ('WCR') which is part of the Wholesale Credit and Market Risk ('WMR') sub-function, within the Risk function, either at local level or regional level or even Group level.

- Credit exposure monitoring is performed by Traded Credit Risk ('TCR'), inside Traded Risk which is part of the WMR sub-function. TCR is split into two teams: Traded Credit Risk Management ('TCRM') and Traded Credit Risk Control ('TCRC').

CCR exposures are monitored intraday at close of business by the TCR team.

TCRC is responsible for capturing the exceptions in CCR systems and providing the first level of analysis. Any new breach is escalated to the TCRM who performs the second level analysis and escalates any unauthorised breach to the Relationship Manager, Front Office, Credit Officer and Senior Management.

Main CCR limits/exposure movements are reported monthly in the GBM Risk Management Meeting.

Unauthorised breaches escalated to the Local or Regional head of TCR are reported for Business Committee ('BCC')/Key Indicators ('KRI') in accordance with the Group policy.

Credit authority for CCR

HSBC Continental Europe WCR has a delegated approval authority for Corporates, funds, Insurers and Asset Managers. Depending on the level of the credit limit, credit approval might require concurrence from HSBC Bank plc WCMR and Group WCMR if above HSBC Continental Europe delegated approval authority.

Sovereigns, Intra-Group and Banks limits require HSBC Bank plc/ Group WCR concurrence whatever the amount of the limit.

HSBC Continental Europe TCRM, within HSBC Continental Europe Traded Risk, has no delegated credit approval authority.

All credit limits are reviewed at least once a year with:

- Traded risk portfolio and market environment analysis and recommendation performed by TCR.
- Risk profile assessment (internal rating), risk appetite update with limits validation performed by HSBC Continental Europe WCR (HSBC Bank plc WCR and Group WCR if required).

At the request of the local Relationship Manager and potentially the Global Relationship Manager, HSBC Continental Europe TCRM might recommend credit limit application to the relevant credit authority, in the context of Global Annual Review and for specific limit requests.

TCRM's recommendations highlight the main risk drivers and is based on the in depth analysis of the existing portfolio which includies views on contingent market risk and stress exposure and potentially include proposals to reduce the portfolio risk or mitigate proposed transaction.

Credit limit set up for CCR management

Two groups of limits are used at TCR level in the management of CCR:

- Counterparty-level limits;
- Portfolio-level traded credit risk limits.

A) Counterparty-level limits

- Group Credit Risk Capacity ('GCRC')

HSBC's aggregated credit appetite to the client is reflected in the GCRC. The GCRC is set during the Global Annual Review ('GAR') process. It is comprised of two elements, (i) limits (Cat A, Cat B, Cat S) which are already approved or proposed for approval in the CARM application; and (ii) the Unallocated Appetite ('UA') which represents an 'Indication of Appetite' for pipeline transactions or generic headroom that supports the Global Relationship Banker's ('GRB') business development strategy over the next 12 months.

- Category A ('Cat A') limits

Cat A facilities are those for which a credit limit is typically recorded at the full notional amount of the facility, the bank being actually or potentially at risk for 100 per cent of the committed amount.

Cat A facilities include on-balance sheet assets such as loans or lines of credit, as well as bond investments and trading lines. They may be either funded (loans, money market advances, bond trading) or unfunded such as guarantees and underwriting limits.

Cat A limits are set according to maturity bands.

- Category B ('Cat B') limits

Cat B limits cover key counterparty credit exposures arising from off-balance sheet products and are used for the monitoring of the PFE (Potential Future Exposure). Usage under Cat B represents the cost of replacement of the OTC contracts. In most instances, Cat B limits are set at entity level (known as the parent level) according to maturity bands. For Funds, risk is controlled at both an umbrella fund and individual fund level. Some complex corporates are mainly controlled at entity level but may have shared limits under the total relationship.

- Loan Look-Alike ('LLA') limits

LLA exposure is a parallel measure used to complement Cat B exposure measurement for a subset of exposures. The exposure measure is used for trades with characteristics analogous to a bank borrowing facility but for which exposure is primarily being monitored under a Cat B facility. Exposure is measured as the amount financed to the counterparty.

- Category S ('Cat S') limits

Cat S limits cover the risk that counterparties will fail to meet their delivery obligations, either through payment systems ('PSL'), or through settlement processes for treasury and securities transactions ('TSL'). Where possible and where systems allow, to mitigate settlement risk, settlement are made DVP through settlement service providers such as Euroclear or CLS.

- Fluctuation Risk ('FLU') limits

Commodity and cash securities trading give rise to counterparty credit exposure due to the potential price fluctuation in the pre-settlement period between undertaking of the transaction and settlement of the contract. This is a standard, albeit typically very short-dated, risk of a market price-contingent replacement cost whereby a counterparty defaults and is hence unable to honour its obligations. The FLU process is used by TCR to monitor this risk.

- Intra-Group limits

The processes for recording the limit for, and monitoring of, Intra-Group exposures are the same as for third party bank exposures.

B) Portfolio-level limits

TCR has established a number of portfolio-level limits to monitor risk at an aggregate level. These are formalised through a mandate shared with the Trading Heads of Global Banking & Markets ('GBM') and Balance Sheet Management ('BSM'), subject to annual review and ongoing monitoring routines.

The traded credit metrics covered by this mandate are:

- MtM limits

MtM exposure is the sum of positive MtM across all counterparties.

- Current Exposure ('CE') limits

CE is the sum of positive MtM net of collateral across all counterparties.

- Specific Wrong Way Risk ('SWWR') limits

SWWR transactions are self-referencing transactions where future exposure is expected to be high when the counterparty's probability of default is also high i.e. future exposure is positively and directly correlated with the counterparty probability of default and this relationship is driven by transaction(s) with the counterparty.

- General Wrong Way Risk ('GWWR') limits

GWWR occurs when a counterparty's probability of default is positively correlated with moves in general market risk factors such as foreign exchange rates. For example, the default probability of a counterparty may increase with a depreciation of the domestic currency if the depreciation affects their business model. Trading OTC contracts with such a counterparty which become more valuable to the bank as the currency depreciates represents GWWR.

- Default Fund ('DF') limits

DF limits covers HSBC's funded and unfunded DF contribution to CCPs.

- Initial Margin ('IM') limits

IM limits covers HSBC's IM contribution to CCPs.

- Stressed Mutualisation Loss limits

In addition to the usual counterparty credit risk exposure, HSBC also has additional exposure to CCPs via their rights to mutualise losses among Clearing Members.

In the context of monitoring risk through stress test, a stressed mutualisation loss is computed to assess the potential loss arising during a stress period from Clearing activities not measured through the stressed current exposure.

Mitigating actions for counterparty credit risk

In order to reduce its counterparty credit risk, HSBC Continental Europe has signed with the majority of its counterparties, close-out netting master agreements with a Credit Support Annexes ('CSA's). These ensure the regular revaluation of the collateral required and the payment of any corresponding margin calls.

They also permit, in case of a counterparty default, to apply close out netting across all outstanding transactions for all amounts due or to be paid. The collateral types permitted by HSBC Continental Europe are primarily cash or high quality and highly liquid assets.

The management of the collateral is subject to close monitoring. Specific controls exist to ensure the correct settlement/margin calls are made.

Credit Valuation Adjustment

Credit Valuation Adjustment ('CVA') means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty.

That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.

Institutions that hold internal model method approvals both for the specific risk and the counterparty credit risk can calculate the CVA capital charge under the advanced approach otherwise a standard approach have to be used.

HSBC Continental Europe applies the following methods to determine the CVA capital charge:

- The advanced approach on all eligible OTC derivatives.
- The standardised approach on all other transactions that are not in the IMM scope.

Credit Valuation Adjustment ('CVA') hedges

The responsibility for hedging and/or mitigating credit exposure lies within the remit of the Counterparty Exposure Management ('CEM') Desk. Since 2018, this desk trades CDS hedges which are eligible for the mitigation of the CVA own funds requirements. Only single name or index CDS' are used as hedging instruments. The monitoring of eligible hedges is made on a daily basis by Traded Risk.

Wrong-Way Risk

The standard methodology of measuring risk exposure assumes there is no correlation between a counterparty's creditworthiness and the replacement cost of transactions undertaken with that counterparty. Wrong-Way Risk occurs when exposure is materially adversely correlated with the credit quality of the counterparty and arises when default risk and credit exposure increase strongly together.

HSBC distinguishes two types of Wrong-Way Risk:

- General Wrong-Way Risk
- Specific Wrong-Way Risk

HSBC Continental Europe Traded Risk team uses a range of limits and procedures to monitor and control WWR on a daily basis, including requiring deal pre-approvals before undertaking WWR transactions outside pre-agreed guidelines.

Counterparty Risk and Covid-19 impact

In the early stage of Covid-19 pandemic, a review was performed on many sectors, concentrating notably on bank, Energy/Oil, Airline industries along with an Italy country review. Market risk stress testing was also a management tool used to review the HSBC Continental Europe portfolio. The risk appetite has been redefined.

During the development of Covid-19 crisis, vulnerable clients, sectors and countries have been defined. The risk management strongly focused on the collateral disputes and the failed payments. All noteworthy trades especially concerning the vulnerable sectors were escalated.

Counterparty risk – by type of exposure and by product

	2020		2019	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
By exposure class				
IRB advanced approach	**769**	**62**	955	76
– Central governments and central banks	**—**	**—**	75	6
– Institutions	**769**	**62**	880	70
– Corporates	**—**	**—**	—	—
IRB foundation approach	**1,730**	**138**	1,478	118
– Corporates	**1,730**	**138**	1,478	118
Standardised approach	**712**	**57**	506	40
– Central governments and central banks	**7**	**1**	6	—
– Regional government or local authorities	**—**	**—**	—	—
– Institutions	**641**	**51**	411	33
– Corporates	**64**	**5**	89	7
CVA advanced	**307**	**25**	571	46
CVA standardised	**86**	**7**	314	25
CCP standardised	**132**	**11**	159	13
By product				
– Derivatives	**3,012**	**241**	2,710	217
– Securities financing transactions	**265**	**21**	322	26
– Others	**—**	**—**	1	—
– CVA advanced	**307**	**25**	571	46
– CVA Standardised	**86**	**7**	314	25
– CCP default funds	**65**	**5**	65	5
At 31 Dec	**3,736**	**299**	3,983	319

Treasury risk

Capital

Key capital numbers

	At 31 Dec	
	CRD IV	
	2020	2019
	€m	€m
Capital resources		
CET1	**5,818**	6,464
Tier 1 Capital	**6,568**	7,214
Total Capital	**7,974**	8,120
Risk weighted assets		
Credit Risk[1]	**36,431**	36,426
Counterparty Credit Risk	**3,736**	3,982
Market Risk	**2,663**	4,494
Operational Risk	**3,283**	3,149
Basel 1 floor impact		—
Total risk weighted assets	**46,113**	48,051
Capital Ratios (%)		
Common equity tier 1	**12.6%**	13.5%
Total tier 1	**14.2%**	15.0%
Total capital	**17.3%**	16.9%

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

Approach and policy

HSBC Continental Europe's objective in managing the Bank's capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory requirements at all times.

HSBC Continental Europe manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2020, HSBC Continental Europe complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, HSBC Continental Europe manages its capital within the context of an annual capital plan, which is approved by the Board and which determines the appropriate amount and mix of capital.

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

Each HSBC Continental Europe's subsidiary subject to individual regulatory capital requirements manages its own capital to support its planned business growth and meet its local regulatory requirements.

Capital Measurement

HSBC Continental Europe is supervised by the Joint Supervisory Team of the ECB and the ACPR. The Joint Supervisory Team sets HSBC Continental Europe's capital requirements, in line with the regulatory framework.

The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systematically Important Institutions ('G-SII'/'O-SII') buffer. CRR and CRD legislations implemented Basel III in the EU.

The capital management framework defines regulatory capital and economic capital as the two primary measures for the management and control of capital.

Capital measures:

- Regulatory capital is the capital which HSBC Continental Europe is required to hold in accordance with the rules established by regulators; and
- Economic capital is the internally calculated capital requirement to support risks to which HSBC Continental Europe is exposed and forms a core part of the internal capital adequacy assessment process.

Regulatory Requirements

As a result of the annual Supervisory Review and Evaluation Process ('SREP'), the European Central Bank ('ECB') has set to 3.00 per cent the minimum capital requirement under Pillar 2 ('P2R') for HSBC Continental Europe for the year 2021. Following the ECB decision on 8 April 2020 amending the composition of the Pillar 2 additional own funds requirement in the Covid-19 context, the P2R shall be held in the form of 56.25 per cent of CET1 and 75 per cent of Tier 1, as a minimum.

HSBC Continental Europe will be required to meet on a consolidated basis a minimum total capital ratio of at least 13.52 per cent, from 1 January 2021. 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 2.50 per cent for the Conservation buffer in respect of article 129 of the 2013/36 Directive, the 3 per cent Pillar 2 requirement mentioned above and a countercyclical buffer of 0.02 percent based on the estimated current levels.

The requirement in respect of Common equity tier 1 is 8.71 per cent, excluding Pillar 2 guidance ('P2G').

Regulatory Capital

HSBC Continental Europe's capital base is divided into three main categories, namely Common Equity Tier 1, Additional Tier 1 and Tier 2, depending on their characteristics.

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

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

Tier 2 capital comprises eligible subordinated debt and any related share premiums.

Holdings of Tier 2 capital of financial sector entities are deducted.

Leverage Ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based metric, to supplement risk-based capital requirements. It aims to constrain the build-up of excessive leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total on- and weighted off-balance sheet exposures, further netting possibilities on market instruments and certain exposures exclusions including a temporary exclusion until 27 June 2021 of central bank exposures as supervisory authorities publicly declared exceptional circumstances. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement.

Pillar 3 market discipline

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. HSBC Continental Europe's *Pillar 3 Disclosure at 31 December 2020* is published on HSBC's website, www.hsbc.com, under 'Investors' section.

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

HSBC Continental Europe became subject to MREL requirements for the first time on 30 March 2020 following reception of decision from the *Autorité de Contrôle Prudentiel et de Résolution ('ACPR')*. This decision applies until a new decision is received and imposes an MREL requirement as a percentage of the Total Liabilities and Own Funds ('TLOF').

Following the end of the UK withdrawal from the European Union transition period, HSBC Continental Europe becomes from 1 January 2021 a material subsidiary (CRR article 4.1.135) of a third-country G-SII and therefore bound by new internal TLAC requirements (CRR article 92b). In order to meet the internal TLAC requirements, HSBC Continental Europe issued internal TLAC eligible Senior Non-Preferred bonds in December 2020.

Overview of changes of own funds ratios

Own funds disclosure

Ref*		At 31 Dec 2020 €m	At 31 Dec 2019 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**2,628**	2,628
	– ordinary shares	**2,137**	2,137
2	Retained earnings	**3,482**	3,546
3	Accumulated other comprehensive income (and other reserves)	**1,586**	1,545
5	Transitional adjustments due to additional minority interests	**—**	—
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**(1,052)**	(63)
6	**Common equity tier 1 capital before regulatory adjustments**	**6,645**	7,656
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(174)**	(214)
8	Intangible assets (net of related deferred tax liability)	**(85)**	(376)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	**—**	(29)
11	Fair value reserves related to gains or losses on cash flow hedges	**(69)**	(34)
12	Negative amounts resulting from the calculation of expected loss amounts	**(39)**	(117)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**81**	84
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(539)**	(508)
22	Amount exceeding the 15% threshold	**—**	—
28	**Total regulatory adjustments to common equity tier 1**	**(827)**	(1,193)
29	**Common equity tier 1 capital**	**5,818**	6,464
	Additional tier 1 ('AT1') capital: instruments		
30	Capital instruments and the related share premium accounts	**750**	750
36	**Additional tier 1 capital before regulatory adjustments**	**750**	750
	Additional tier 1 capital: regulatory adjustments		
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**—**	—
43	**Total regulatory adjustments to additional tier 1 capital**	**—**	—
44	**Additional tier 1 capital**	**750**	750
45	**Tier 1 capital (T1 = CET1 + AT1)**	**6,568**	7,214
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**1,876**	1,376
51	**Tier 2 capital before regulatory adjustments**	**1,876**	1,376
	Tier 2 capital: regulatory adjustments		
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	**(470)**	(470)
57	**Total regulatory adjustments to tier 2 capital**	**(470)**	(470)
58	**Tier 2 capital**	**1,406**	906
59	**Total capital (TC = T1 + T2)**	**7,974**	8,120
60	**Total risk-weighted assets**	**46,113**	48,051
	Capital ratios and buffers		
61	Common equity tier 1	**12.6%**	13.5%
62	Tier 1	**14.2%**	15.0%
63	Total capital	**17.3%**	16.9%
64	Institution specific buffer requirement	**2.5%**	2.8%
65	– capital conservation buffer requirement	**2.5%**	2.5%
66	– countercyclical buffer requirement	**0.02%**	0.3%
68	Common equity tier 1 available to meet buffers[1]	**8.1%**	9.0%
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**124**	168
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**623**	680
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**125**	201

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
1 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*

The main movements of the own funds are detailed on the Note 1 'significant events during the year' of the HSBC Continental Europe's Universal Registration Document 2020.

RWAs by risks types

	Risk Weighted Assets		Capital required[1]	
	2020	2019	**2020**	2019
	€m	€m	**€m**	€m
Credit risk[2]	**36,431**	36,426	**2,914**	2,914
Counterparty credit risk	**3,736**	3,982	**298**	319
Market risk	**2,663**	4,494	**213**	359
Operational risk	**3,283**	3,149	**263**	252
At 31 Dec	**46,113**	48,051	**3,688**	3,844

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

RWA movement by global business by key driver

	Credit risk, counterparty credit risk and operationnal risk					
	WPB	**CMB**	**GB&M**	**Corporate Centre**	**Market risk**	**Total RWA**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
RWAs at 1 January 2020	**7,137**	**17,783**	**17,679**	**959**	**4,493**	**48,051**
Asset size	**(945)**	**(1,710)**	**(1,288)**	**71**	**(1,593)**	**(5,465)**
Asset quality	**–**	**199**	**475**	**(24)**		**650**
Model updates	**1,499**	**(38)**	**(211)**	**(3)**	**–**	**1,247**
Methodology and policy	**1,748**	**120**	**244**	**(244)**	**(238)**	**1,630**
Foreign exchange movement	**–**	**–**	**–**	**–**	**–**	**–**
Total RWA movement	**2,302**	**(1,429)**	**(780)**	**(200)**	**(1,831)**	**(1,938)**
RWAs at 31 Dec 2020	**9,439**	**16,354**	**16,899**	**759**	**2,662**	**46,113**

RWA decreased by EUR 1,938 millions, mainly driven by business activity decrease in CMB and GBM and partially offset by model updates and methodology changes on WPB business.

Leverage Ratio at 31 December

	At 31 Dec	
	2020	2019
	€m	€m
Tier 1 Capital	**6,568**	7,214
Leverage Exposure	**154,928**	192,380
Leverage ratio %	**4.2%**	3.7%

Tier 1 capital reduced by EUR 646 millions to EUR 6,568 millions during 2020. The Leverage exposure decreased by EUR 37,4 billions to EUR 154,9 billions.

Liquidity and funding risk management

Liquidity and funding risk management framework

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

HSBC Group has an internal liquidity and funding risk management framework which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is undertaken in France in compliance with the Group's framework and with practices and limits set through by the RMM and approved by the Board.

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

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

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. In this context, liquidity and funding risk is managed by HSBC Continental Europe on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed.

HSBC Continental Europe's policy is it should be self-sufficient in funding its own activities.

The Liquidity coverage ratio ('LCR') and Net stable funding ratio ('NSFR') are key components of the Liquidity and Funding Risk Framework.

Liquidity and funding risk profile

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

At 31 December 2020, HSBC Continental Europe remained within the LCR risk limits established by the Board and applicable under the Group's liquidity and funding risk framework.

The following table displays the LCR levels for HSBC Continental Europe consolidated on an European Commission LCR Delegated Regulation basis.

Liquidity coverage ratio

	At 31 Dec	
	2020	2019
	%	%
HSBC Continental Europe	**143**	152

While HQLA increased due to deposit growth, the LCR for HSBC Continental Europe declined, reflecting a reassessment of potential LCR outflows, particularly with respect to committed facilities.

Net stable funding ratio

The Net Stable Funding Ratio ('NSFR') requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR over the longer term.

The HSBC Continental Europe calibration of NSFR will be based on the CRR II (Regulation EU 2019/876) which will enter into force in June 2021 regarding the NSFR.

On the basis of the Basel Committee's BCBS 295 interpretation, the NSFR is assessed at the level of 130 per cent at the same reference date.

These calculations require various interpretations of the texts, and therefore HSBC Continental Europe's NSFR may not be directly comparable with the ratios of other institutions.

At 31 December 2020, HSBC Continental Europe was within the NSFR risk limits established by the Board and applicable under the liquidity and funding risk framework.

The table below displays the NSFR levels for HSBC Continental Europe consolidated on its interpretation of CRR II.

Net stable funding ratio

	At 31 Dec	
	2020	2019
	%	%
HSBC Continental Europe	**136**	127

On the basis of the Basel Committee's BCBS 295 interpretation, the NSFR is assessed at the level of 130 per cent at 31 December 2020.

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is undermined if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists.

In addition to this, HSBC Continental Europe is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

These risks are managed by specific and dedicated ALCO limits.

Liquid assets

The table below shows the unweighted liquidity value of assets categorised as liquid, which is used for the purposes of calculating the LCR metric.

This reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Liquid assets

	Estimated liquidity value at 31 Dec	
	2020	2019
	€m	€m
Level 1	**38,968**	38,176
Level 2a	**297**	880
Level 2b	**–**	1

Level 1 liquid assets include HSBC Continental Europe balances with its central bank (excluding non-withdrawable reserves) and notes and coins.

Liquidity stress testing

HSBC Continental Europe undertakes liquidity stress testing to confirm that its risk appetite is correct, to validate that it can continue to operate under various stress scenarios and to confirm that the stress assumptions within the LCR scenario are appropriate and conservative enough for the group's business. HSBC Continental Europe also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the bank to exhaust its liquidity resources. If the scenarios are not deemed remote enough then corrective action is taken.

Stress testing scenarios are run to test the quality of liquidity resources under stresses of varying durations and nature. The ALCO approves the underlying assumptions and reviews results. These results are also presented through the Internal Liquidity Adequacy Assessment Process ('ILAAP') to the Board.

In addition to these stress-testing exercises, HSBC Continental Europe produces an internal liquidity stress metric that is largely involved in the Bank's liquidity operational management.

Finally, HSBC Continental Europe performs Fire Drill exercises to test the knowledge and right application of its Contingency Funding plan across the Bank.

Sources of funding

Our primary sources of funding are customer current accounts, repo and wholesale issuances and capital instruments.

The following 'Funding sources and uses' table provide a consolidated view of how HSBC Continental Europe' balance sheet is funded, and should be read in light of the liquidity and funding risk framework.

The following table analyses HSBC Continental Europe's consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

Wholesale funding markets are accessed by issuing senior debt securities (publicly and privately) and borrowing from secured repo markets against high-quality collateral, to align asset and liability maturities, currency mismatches and to maintain a presence in local wholesale markets.

The main financing transactions in 2020 are presented in the Significant events during the year section on page 182.

Funding sources and uses

	2020 €m	2019 €m		2020 €m	2019 €m
Sources			**Uses**		
Customer accounts	**61,393**	57,550	Loans and advances to customers	**56,225**	56,956
Deposits by banks	**17,204**	12,113	Loans and advances to banks	**6,781**	6,798
Repurchase agreements – non-trading	**10,984**	20,213	Reverse repurchase agreements – non-trading	**21,522**	45,973
Debt securities in issue	**3,605**	9,782	Cash collateral, margin and settlement accounts	**18,388**	13,786
Cash collateral, margin and settlement accounts	**16,205**	12,865	Assets held for sale	**3**	3
Liabilities of disposal groups held for sale	**—**	—	Trading assets	**12,954**	14,837
Subordinated liabilities	**1,876**	1,376	– reverse repos	**20**	1
Financial liabilities designated at fair value	**16,892**	18,953	– stock borrowing	**7**	—
Liabilities under insurance contracts	**23,228**	23,292	– other trading assets	**12,927**	14,836
Trading liabilities	**17,828**	23,262	Financial investments	**19,167**	16,987
– repos	**—**	—	Cash and balances with central banks	**29,508**	19,463
– stock lending	**—**	—	Net deployment in other balance sheet assets and liabilities	**12,126**	13,074
– other trading liabilities	**17,828**	23,262			
Total equity	**7,459**	8,471			
At 31 Dec	**176,674**	187,877	**At 31 Dec**	**176,674**	187,877

Contingent liquidity risk arising from committed lending facilities

HSBC Continental Europe provides committed facilities such as standby facilities and committed backstop lines to its customers. All of the undrawn commitments provided to conduits or external customers are accounted for in the LCR and NSFR in line with the applicable regulations. This, along with the live monitoring of the concentration over these instruments ensures that under a stress scenario any additional outflow generated by the increased utilisation of these committed facilities will not give rise to liquidity risk for HSBC Continental Europe.

The table below shows the HSBC Continental Europe’s contractual exposures as at 31 December. The increase of EUR 7.8 billion is mainly due to the pass-on to the real economy of the market and Central Bank’s funding in the 2020 challenged European economic situation.

HSBC Continental Europe's contractual exposures as at 31 Dec monitored under the contingent liquidity risk structure

	At 31 Dec 2020 €bn	At 31 Dec 2019 €bn
Commitments to customers		
– Corporates	**42,332**	37,311
– Retail and SME	**1,709**	1,871
– Financials	**4,174**	3,069
– Others	**4,352**	2,467
Commitments to customers		
– 5 largest[1]	**4,308**	3,689

1 *Sum of the undrawn balance of the five largest facilities excluding conduits.*

Asset encumbrance and collateral management

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an HSBC Continental Europe basis consistent with the approach to managing liquidity and funding. Available loan collateral held in HSBC Continental Europe is managed as a single consistent collateral pool from which HSBC Continental Europe will seek to optimise the use of the available collateral.

The objective of this disclosure is to facilitate an understanding of instantly available and unrestricted assets that could be used to support potential future funding and collateral needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on- and off-balance sheet)

	2020	2019
	€m	€m
Total on balance sheet assets as at 31 Dec	**237,099**	237,680
Less:		
– reverse repo/stock borrowing receivables and derivatives assets	**(77,997)**	(91,698)
– other assets that cannot be pledged as collateral	**(31,496)**	(32,552)
Total on-balance sheet assets that can support funding and collateral needs as at 31 Dec	**127,606**	113,430
Add: off-balance sheet assets		
– fair value of collateral received in relation to reverse repo/stock borrowing/derivatives that is available to sell or repledge	**52,980**	100,359
Total assets that can support funding and collateral needs as at 31 Dec	**180,586**	213,789
Less:		
– on-balance sheet assets pledged	**(45,355)**	(31,938)
– re-pledging of off-balance sheet collateral received in relation to reverse repo/stock borrowing/derivatives	**(47,999)**	(73,499)
Total assets available to support funding and collateral needs as at 31 Dec	**87,232**	108,352

Market risk

Market risk is the risk that the market rates and prices on which the Group has taken views – interest rates, exchange rates, equity prices etc – will move adversely relative to positions taken causing losses to the Group.

All open market risk must be subject to limits. A governance process ensures that this rule is respected in all the HSBC Group entities. These limits are defined in terms of lists of authorised instruments, underlying assets, markets and maturities, Value at Risk ('VaR') limits, sensitivity levels, maximum losses and stress tests. They are revised at least once a year in the annual limit review process and are presented in the Market Risk Forum.

The process for allocating market risk limits and the permanent market risk control system as a whole involve a number of people from the HSBC Group and HSBC Continental Europe, as well as specific committees, the roles of which are set out below.

Market Risk governance

At the HSBC Group level, market risk is managed and controlled through limits approved by the Risk Management Meeting for HSBC Holdings plc. These limits are allocated across business lines and to the Group's legal entities. Each major operating entity, such as HSBC Continental Europe, has an independent market risk management and control sub-function which is responsible for measuring market risk exposures, monitoring and reporting these exposures against the prescribed limits on a daily basis.

Group Wholesale credit and Market Risk (Group 'WMR')

In the HSBC Group, market risk supervision is carried out within the Wholesale credit and Market Risk department which is a sub-function of the Group Risk function. The Head of Group WMR reports to the HSBC Group Chief Risk Officer. This department is in charge, via its Traded Risk entity, of subsequently allocating risk limits to the various HSBC Group entities and business lines, via the Site Entity Room Mandates, once these have been validated by the appropriate HSBC Group governance body. Similarly, this department is in charge of monitoring exposure at the HSBC Group level and of granting temporary limits. The Wholesale and Market Risk department has a European dimension and a local dimension in certain countries including France.

Europe Traded Risk

The Head of Traded Risk Europe, who reports directly to the Global Head of Traded Risk and to the Head WMR Europe, supervises the mandates review process within his geographic zone of responsibility. He submits them for review to Group WMR. He is also functional head of the Head of Traded Risk France.

HSBC Continental Europe market risk governance

Locally, the Chief Risk Officer confers to WMR France the management of the market risks limits for HSBC Continental Europe and the business lines it operates. On top of their submission to Group WMR through Traded Risk Europe, the risks mandates are also approved by the Head of WMR France within the risk appetite limits approved by the HSBC Continental Europe Board. These are subject to a formal review at least annually by the HSBC Continental Europe Market Risk Forum.

The HSBC Continental Europe Market Risk Forum ('MRF')

Its role is to oversee all market risk aspects, to ensure that appropriate controls are in place and to approve the main rules included in the supervision system.

The MRF is chaired by the Head of WMR France and is held on a monthly basis. It includes the heads of the businesses concerned by these risks and the main heads of the associated control functions: the Head of WMR France, the Head of Traded Risk France, the Head of Independent Model Review ('IMR') and the Head of Product Control.

The HSBC Continental Europe Market Risk Forum reviews risks and results indicators, analyses any significant events observed during the previous month, including any breaches of significant limits, any requests for permanent or temporary limits.

The Risk Management Meeting ('RMM')

The the main areas of attention of the Market Risk Forum are reported to the HSBC Continental Europe RMM on a monthly basis.

Wholesale Credit and Market Risk ('WMR') France

WMR France is responsible for the wholesale credit risk and the market risk of the French balance sheet. The Head of Wholesale Credit and Market Risk France chairs the HSBC Continental Europe Market Risk Forum. He is also a member of the HSBC Continental Europe Balance Sheet ALCO.

Traded Risk France

Within WMR Risk, Traded Risk designs, develops and implements the market risk management policy. This in particular covers:

- permanent monitoring of market risks;
- development and implementation of procedures complying with regulatory requirements and with best practices;
- allocation of market risk limits within HSBC Continental Europe compatible with its strategy and its risk appetite;

- approval of new products;
- calculations of market risks and Value at Risk ('VaR').

The Head of Traded Risk France reports hierarchically to the Head of Wholesale and Market Risk France. The Head of Traded Risk France is responsible for both Market Risk Management and Control ('MRMaC') France and Traded Credit France. He is responsible for ensuring the consistency and effectiveness of the market risk control framework. In general, it is the responsibility of the Head of Traded Risk France to provide Senior Management and HSBC Continental Europe's Market Risk Forum with comments and explanations concerning any significant breaches of max-loss and limits, or any positions he deems useful for Senior Management to know about.

MRMaC is made up of two teams: the Market Risk Management ('MRM') and the Market Risk Control ('MRC').

Market Risk Management ('MRM')

Market Risk Management ('MRM') defines market risk mandate limits, deals with breaches of limits and exceptional situations, monitor and analyses positions, depending on market movements, analyses the appropriateness of risk metrics (sensitivity, VaR, stress scenarios), defines and prepares a summary analysis of market risks for Senior Management, is involved in improving risk monitoring procedures and implements new indicators, as required by market developments.

The MRM team prepares the annual limit review jointly with the business heads and submits it for approval to the Head of WMR France, by delegation from the Chief Risk Officer, and to Group WMR via the Head of Traded Risk Europe.

Market Risk Control ('MRC')

The Market Risk Control teams are responsible on a day-to-day basis for checking adherence to all of the various market risk limits, regardless of the level of the market risk mandate and the nature of the limit in question. They report any breaches of these limits and also any consumption in excess of a warning threshold set at 80 per cent of the limit. They are responsible for reporting weekly the stress tests. They also carry out the back-testing of the VaR.

They also produce and distribute HSBC Continental Europe's consolidated market risk reports for Senior Management and for the HSBC Group Consolidation. The team is also responsible for producing the various periodical summary statements required for both internal needs (packs for the RMM, Risk Committee, the Board, annual reports, etc.) and external needs, such as supervisory authorities.

Market Risk Control reports hierarchically to the Head of Traded Risk France.

Traded Credit Risk

Two teams are responsible for the daily monitoring of the counterparty risk exposures of HSBC Continental Europe.

A first one is focusing on the reporting of counterparty risk. It ensures completion of the scope, performs daily controls and produces daily risk report to the second one, the risk managers.

On top of controlling adherence to the dedicated limits, the Traded Credit Risk Managers provide detailed and ad hoc analysis to senior management, ensure that risk measures are fit-for-purpose and runs regular stress tests on the portfolio.

Both teams locally report into the Head of Traded Risk France.

Independent Model Review

Models developed by the front office research team are used for managing, valuing and assessing the risks of some derivative products. These models as well as VaR models are reviewed by an independent unit of experts, the Independent Model Review ('IMR') previously called Quantitative Risk and Valuation Group ('QRVG'). Its manager reports at a local level to the Chief Risk Officer in charge of risks and functionally to the Head of IMR Europe .

Product Control

Product Control is responsible for daily independent controls over the valuation of the positions. It produces daily and detailed explanations of the economical Profit and Loss, and reconciles it at month-end with the accounting Profit and Loss. It performs controls over off-market and off-margin transactions (this task is being transferred progressively to the Markets Surveillance team) and is occasionally involved in the resolution of collateral disputes.

Definition, implementation and monitoring of Fair Value Adjustments are part of its remit, and it is also involved in the monitoring of the different recommendations issued by IMR in terms of model limitation. Head of Product Control locally reports to HSBC Continental Europe Chief Finance Officer, and functionally to the Head of Product Control for EMEA (Europe, Middle-East & Africa).

The HSBC Continental Europe Valuation Committee

The Valuation Committees meet on a monthly basis and features representation from Front Office, Product Control, Market Risk Management and IMR.

It notably reviews and approves of the results of the month-end IPV and FVA calculation process as well as the prudent valuation calculations on a quarterly basis. Approximate bookings where systems do not adequately reflect the economics of a transaction are also considered during this meeting.

All fair value adjustment methodologies are reviewed and approved by this forum at least annually.

Market risk in 2020

The world has been dramatically hit by the coronavirus sanitary crisis. The confinement measures stopped the economic activity abruptly and forced governments and central banks to react vigorously to avoid a severe and lasting economic depression.

See also page 92 Risk Factors – Market fluctuations may reduce our income or the value of our portfolios.

The announcement around vaccination readiness and efficiency lead to a new rally on markets at year end.

However, sanitary situation was still concerning with the winter period on Western countries and the lockdown measures still impacting economy despite less thought than in spring.

Dedicated Covid-19 stress tests did not exhibit significant potential market risk losses on Trading portfolios. They show significant increase of the Counterparty Credit Risk exposure but concentrated on collateralized or investment grade counterparties.

Market risk measures

Market Risk monitoring system

The objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite. HSBC uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, Value at Risk and stress testing.

The maximum exposure and risk that HSBC Continental Europe intends to bear are defined by a set of mandates which cover the most significant limits in terms of:

- Value at Risk, overall, total trading, sub-limits of VaR on interest rates, foreign exchange, equities;
- sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), and various 'spread' factors;
- Exposure-At-Default ('EAD') per bond issuers;
- maximum daily and monthly losses, referred to as 'max loss';
- authorised instruments.

Each business mandate encompasses several business units called Volcker and FBL ('French Banking Law') desks which in turn receive a set of limits from MRM after submission of a Trading Desk Profile by the desk Head. This document summarises the desk's strategy, the required risk limits as well as any other relevant information for the desk's operations.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices, such as the effect of a one basis point change in yield. HSBC uses sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

One of the principal tools used by the Group to monitor and limit market risk exposure is the VaR. An internal model of HSBC Continental Europe is used to calculate VaR.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (99 per cent for HSBC). HSBC Continental Europe calculates VaR daily. The VaR model used by HSBC Continental Europe, as for the Group, is based on historical simulation.

The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential variations in market prices are calculated with reference to market data from the last two years. Since January 2007, HSBC Continental Europe has been calculating a one-day VaR.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The back-testing process compares the ex-ante calculated VaR figures with ex post daily Profit and Loss ('P&L') figures. This comparison tests the ability of VaR to control the expected P&L variations and therefore helps assess the quality of the internal model. Any shortcomings in the VaR model will particularly come to light if the day's P&L figures exceed 99 per cent VaR or where VaR systematically and overwhelmingly exceeds daily P&L figures.

The 'back-testing violation' exceptions are reported and analysed.

The model is back-tested by taking 99 per cent, one-day VaR figures and comparing them with daily results determined from changes in market prices assuming constant positions. Back-testing is done daily. Its results are reviewed monthly in a special HSBC Group committee and in the MRF and notified quarterly to the regulator of HSBC Continental Europe.

Risk not in VaR framework

VaR captures directly observable traditional risk factors on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, mean reversion parameters, etc. Therefore, since 31 December 2007, HSBC Continental Europe also calculates an additional VaR measure called 'Add-On VaR' or 'Risk not in VaR' in respect of these exotic risk factors.

Stressed VaR

HSBC Continental Europe calculates a Stressed VaR. Like VaR, it is calculated using historical simulations and a 99 per cent confidence level. However, unlike VaR, Stressed VaR is based on a 10 day period and a stressed period historical dataset. Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

Stress Testing

Stress testing is an important tool which is fully part of the Group's risk management framework. Their purpose is to assess the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity, regional and Group levels. A standard set of scenarios is used consistently across all regions within the Group. Scenarios are tailored in order to capture the relevant events or market movements at each level.

The process is governed by the Stress Testing Review Group forum which, in conjunction with Group Risk management, determines the scenarios to be applied at portfolio and consolidated level, as follows:

- single risk factor stress scenarios that are unlikely to be captured within the VaR models, such as the break of a currency peg;
- technical scenarios, which consider the largest move in each risk factor without consideration of any underlying market correlation;
- hypothetical stress scenarios, which consider potential macroeconomic events, for example, the slowdown in mainland China and the potential effects of a sovereign debt default, including its wider contagion effects; and
- historical stress scenarios, which incorporate historical observations of market movements during previous periods of stress which would not be captured within VaR.

Other scenarios are designed locally to take into account activities that are specific to HSBC Continental Europe and are presented to the MRF on top of selected Group stress tests. Indeed, the whole set of scenarios with a significant impact on portfolio valuations are discussed and reviewed during the monthly Market Risk Forum.

Local stress test scenarios defined in HSBC Continental Europe contemplates different scenarios on Eurozone (mixing different deformations of the yield curves of the sovereign issuers, including serious tensions on these spreads) and are regularly recalibrated to adjust to market conditions. Dedicated scenarios involving deformation of the swap curve and the volatility surface are also applied to more exotic books in order to capture the convexity and the distortion of risks of these books. These results are presented on a monthly basis to the MRF.

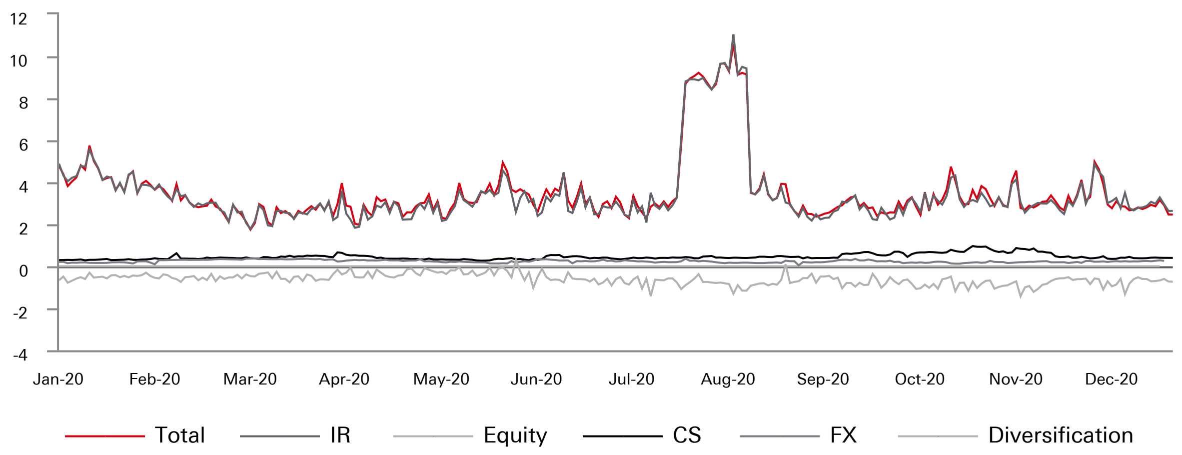
Trading portfolios

Value at Risk of the trading portfolios

Trading VaR remained within the risk appetite throughout the year and remained limited on average.

The spike observed during the summer is actually technical and linked to the IBOR transition programme: the change of indexes for clearing houses collateral remuneration has been reflected with some delay in systems and VaR levels came back to spring levels as soon as the change had been reflected.

Trading VaR by risk type (€m)



Trading VaR by risk type

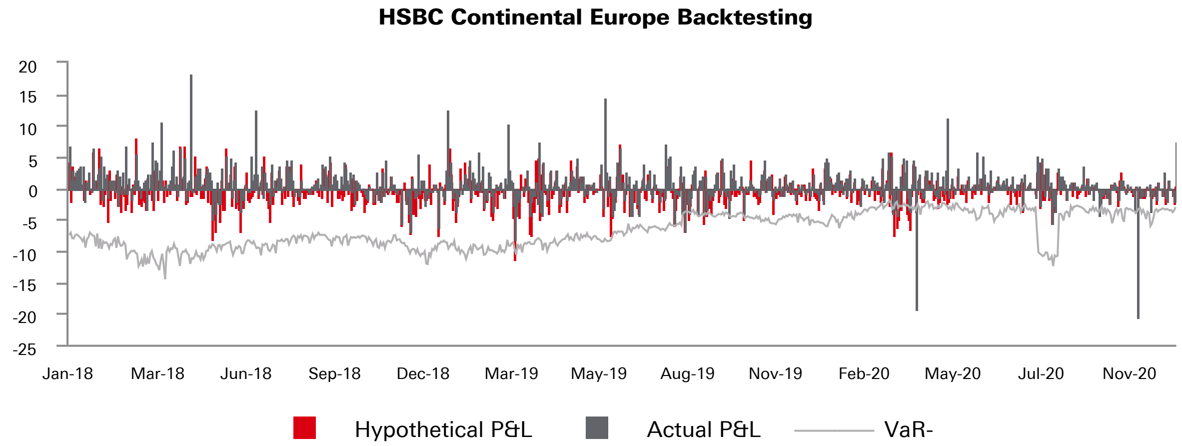
	Foreign exchange ('FX') and commodity	Interest rate ('IR')	Equity ('EQ')	Credit Spread ('CS')	Portfolio Diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 31 Dec 2020	**0.16**	**2.64**	**—**	**0.40**	**(0.73)**	**2.46**
Average	**0.24**	**3.44**	**—**	**0.45**	**(0.62)**	**3.51**
Maximum	**0.51**	**11.04**	**—**	**0.96**	**(1.43)**	**10.58**
Balance at 31 Dec 2019	0.26	5.38	—	0.30	(0.53)	5.42
Average	0.24	4.90	—	1.12	(1.33)	4.93
Maximum	0.37	7.64	—	1.74	(2.10)	8.00

1D SVaR of the Trading portfolio

Following decrease of USD swap curves, the level of stressed VaR strongly decreased at the beginning of the year together with the decrease of USD structured rates exposures.

1D SVaR of the Trading portfolio

	31 Dec 2020
	€m
Average	**21.72**
Maximum	**83.87**
Minimum	**3.71**
At 31 Dec 2020	**23.61**



Non-Trading portfolios

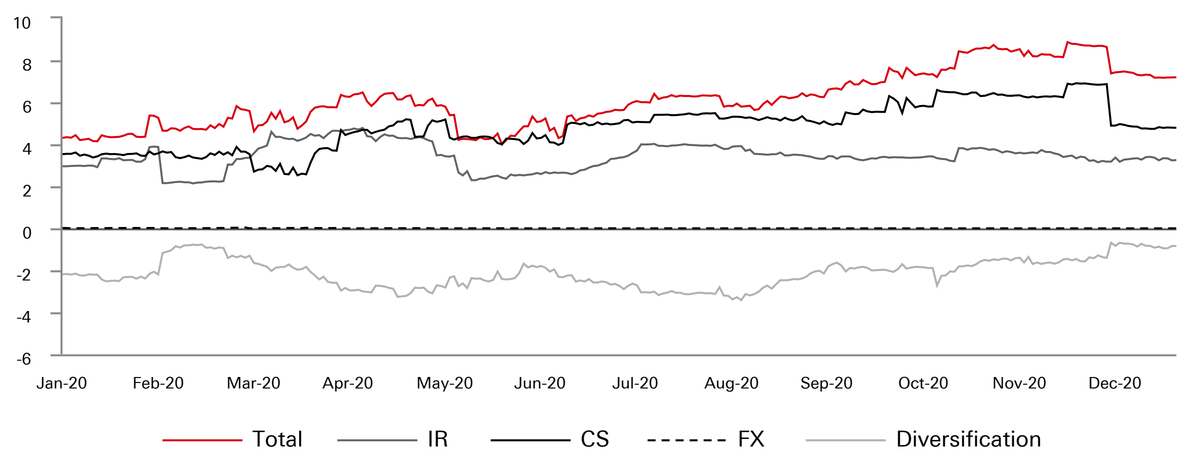
Value at Risk of the non-trading portfolio

The VaR of the non-trading portfolio slightly increased in absolute terms following the increase of outright exposure in the Asset Liquidity Buffer.

Total accrual VaR by risk type

	Foreign Exchange €m	Interest Rate €m	Equity €m	Credit Spread €m	Portfolio diversification €m	Total €m
Balance at 31 Dec 2020	**—**	**3.25**	**—**	**4.79**	**(0.84)**	**7.19**
Average	**—**	**3.43**	**—**	**4.82**	**(2.11)**	**6.14**
Maximum	**—**	**4.78**	**—**	**6.91**	**(3.42)**	**8.86**
Balance at 31 Dec 2019	0.01	2.93	—	3.52	(2.21)	4.25
Average	0.01	2.94	—	2.79	(1.8)	3.94
Maximum	0.03	4.88	—	3.83	(2.47)	5.49

Total non-trading VaR by risk type (€m)



Market risk under standardised approach

		2020		2019	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
	Risk type				
1	Interest rate risk (general and specific)	**146**	**12**	128	10
2	Equity risk (general and specific)	**—**	**—**	—	—
3	Foreign exchange risk	**100**	**8**	127	10
4	Commodity risk	**—**	**—**	—	—
	Options				
5	Simplified approach	**—**	**—**	—	—
6	Delta-plus method	**93**	**7**	70	6
7	Scenario approach	**—**	**—**	—	—
8	Securitisation	**—**	**—**	—	—
9	**Total**	**339**	**27**	325	26

Market risk under IMA

		2020		2019	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
1	**VaR (higher of values a and b)**	**444**	**35**	704	56
(a)	Previous day's VaR	**97**	**8**	214	17
(b)	Average daily VaR	**444**	**35**	704	56
2	**Stressed VaR (higher of values a and b)**	**964**	**77**	1,667	133
(a)	Latest SVaR	**329**	**26**	666	53
(b)	Average SVaR	**964**	**77**	1,667	133
3	**Incremental risk charge (higher of values a and b)**	**350**	**28**	891	71
(a)	Most recent IRC value	**278**	**22**	610	49
(b)	Average IRC value	**350**	**28**	891	71
5	**Other**	**566**	**45**	907	73
6	**Total**	**2,324**	**186**	4,169	333

Interest-rate risk of the banking book

Overview

Banking book interest rate risk is the risk of an adverse impact to earnings or capital due to changes in market interest rates. Interest rate risk in the banking book is generated by non-traded assets and liabilities and is monitored and controlled at Group level by Group Treasury and at HSBC Continental Europe level by Asset, Liability and Capital Management. Group Treasury and ALCM functions are supervised by RMM who approve risk limits used in the management of interest rate risk. Banking book interest rate risk is transferred to and managed by Markets treasury, who are overseen by Wholesale Market Risk and Product Control functions.

Governance

Group Treasury and ALCM monitor and control non-traded interest rate risk as well as reviewing and challenging the business prior to the release of new products and proposed behavioural assumptions used for hedging activities. ALCM are also responsible for maintaining and updating the transfer pricing framework, informing ALCO of the overall banking book interest rate risk exposure and managing the balance sheet in conjunction with Markets treasury.

The internal transfer pricing framework is constructed to ensure that structural interest rate risk, arising due to differences in the re-pricing timing of assets and liabilities, is transferred to Markets treasury and business lines are correctly allocated income and expense based on the products they write, inclusive of activities to mitigate this risk. Contractual principle repayments, payment schedules, expected prepayments, contractual rate indices used for re-pricing and interest rate reset dates are examples of elements transferred for risk management by Markets treasury.

The internal transfer pricing framework is governed by Asset, liability and capital management committee ('ALCO') whose responsibility it is to define each operating entities transfer pricing curve and review and approve the transfer pricing policy, including behaviouralisation assumptions used for products where there is either no defined maturity or customer optionality exists. HSBC Continental Europe ALCO is responsible for monitoring and reviewing the bank's overall structural interest rate risk position. Interest rate behaviouralisation policies have to be formulated in line with the Group's behaviouralisation policies and approved at least annually by ALCO.

Non-traded assets and liabilities are transferred to Markets treasury based on their re-pricing and maturity characteristics. For assets and liabilities with no defined maturity or re-pricing characteristics behaviouralisation is used to assess the interest rate risk profile.

Markets treasury manages the banking book interest rate positions transferred to it within the Markets Risk limits approved by RMM. Markets treasury will only receive non-trading assets and liabilities as long as they can economically hedge the risk they receive. Hedging is generally managed through vanilla interest rate derivatives or fixed rate government bonds. Any interest rate risk which Markets treasury cannot economically hedge is not transferred and will remain within the business line where the risk is originated.

Measurement of Interest Rate Risk in the Banking Book

The following measures are used by ALCM to monitor and control interest rate risk in the banking book:

- Nominal Gap
- Net Interest Income ('NII') sensitivity
- Economic Value of Equity ('EVE') sensitivity
- Value at risk ('VaR')

The interest-rate risk is assessed monthly based on the nominal banking book gap between assets and liabilities by time bucket. The maturity is either in line with contractual maturities or where the contractual maturities are not perceived to be a true reflection of the underlying risk a theoretical, behaviouralised maturity is used. The analysis is based on the next interest rate repricing date. The main behaviouralised items are Non-Interest Bearing Current Accounts and fixed rate home loans with a prepayment option.

NII sensitivity reflects the sensitivity of earnings due to changes in market interest rates. Both one-year and five-year net interest income sensitivities are forecasted across a range of interest rate scenarios based on a static balance sheet assumption. This includes assumptions on business line rate pass-on, re-investment of maturing assets and liabilities and prepayment. Markets treasury IRR position is modelled based on no management actions i.e. the risk profile at the month end is assumed to remain constant throughout the forecast horizon.

The NII Sensitivity is measured under varying interest rate scenarios:

- Immediate parallel shock of the yield curve of +/-100 basis points from beginning of first quarter;
- Immediate parallel shock of the yield curve of +/-25 basis points from beginning of first quarter.

EVE sensitivity is a present value calculation of the banking book under different interest rate scenarios where equity is kept at accounting value.

The balance sheet is valued on a run off basis, no balance sheet growth or reinvestment and will incorporate assumptions on behaviouralisation of non-maturity products and customer optionality.

These amounts concern HSBC Continental Europe legal perimeter including branches. Given the interest rate risk management policies, the inclusion of subsidiaries in this scope is considered non-material.

The EVE Sensitivity is measured under varying interest rate scenarios:

- Parallel shock of the yield curve of +/-200 basis points;
- Basel Committee on Banking Supervision's six predefined shock scenarios.

Non-traded VaR uses the same models as those used in the trading book but for banking book balances. It will exclude the elements of risk which are not transferred to BSM.

Key risk Drivers

The bank's interest rate risk in the banking book can be segregated into the following drivers:

- Gap risk – also known as Duration Risk or Repricing Risk – arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices and
- Option risk arises from option derivative positions or from optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows.

Exposures

HSBC Continental Europe is exposed to a change of Eurozone interest rates curve on banking operations and structural elements of the balance sheet and would see its net interest income decrease by EUR 57 million on one year as of 31 December 2020 for an immediate decrease of 100 basis points. The impact of an up 200 basis points scenario on shareholders' equity would be EUR -592 million at 31 December 2020.

The following table sets out the interest rate gap by time buckets as of 31 December 2020 before hedging transactions.

Exposures

(in millions of Euros)	1 year	3 years	5 years	7 years	10 years
Interest rate gap	(1,361)	(2,271)	(1,751)	(1,377)	(323)

During the year 2020, in the context of the Covid-19 outbreak, HSBC Continental Europe has constantly monitored the interest rate risk associated with the credit drawdowns and additional customer deposits as well as a slowdown in home loans prepayment and has adjusted its policy to better reflect the exceptional circumstances. The historically low rates environment, should it last longer, would keep on burdening the banking book's Net Interest Margin.

Structural foreign exchange risk

Structural foreign exchange exposures represent the net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than euro.

Unrealised gains or losses due to revaluations of structural foreign exchange exposures are recognised in other comprehensive income, whereas other unrealised gains or losses arising from revaluations of foreign exchange positions are reflected in the income statement.

HSBC Continental Europe's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. HSBC hedge structural foreign exchange exposures only in limited circumstances.

Non Financial (or Operational) risks

In accordance with the French Order of 3 November 2014 and the Operational Risk Functional Instructions Manual, operational risk is defined within HSBC Group as a risk that might be the result of:

- inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically;
- external events.

This risk includes notably external or internal fraud risk (article 324 of EU regulation No. 575/2013), non-authorised activities, errors and omissions including events characterised by a low probability but with a high operational loss in case of occurrence, and risks related to models.

HSBC reviewed and, thus, simplified its Risk Taxonomy regrouping its non-financial risks in seven level 1 categories (previously 16): Financial Reporting and Tax Risk, Financial Crime and Fraud Risk, Regulatory Compliance Risk, Legal Risk, Resilience Risk, Model Risk and People Risk.

The Three Lines of Defence model is detailed earlier in the part called 'Risk Management'.

Operational Risk Functional Instruction Manual, which is used to outline how specific risks are managed, has been reviewed in 2020 in order to enhance the role and responsibilities of the three Lines of Defence stakeholders.

In the first line of defence, risk owners are responsible of the risks within their perimeters and are accountable for the execution of operational controls for their risks.

Control owners must ensure that all the processes, activities and systems within their perimeters are working properly. They work with risk owners in order to understand and manage risks.

In 2020, the first line of defence has been reinforced with the Business Service Owner role, accountable for the delivery of one of more end-to-end business key service offered to our customers. He is responsible for overseeing and managing each of HSBC's critical and material Business Services end-to-end, including the risk, control effectiveness and resilience of that service.

In the second line of defence, the Risk Stewards help overseeing first line of defence activities playing the role of experts for a specific risk.

Operational Risk Function monitors this framework, supports stakeholders already quoted and ensure the efficiency of the framework composed by the first and second line of defence.

In 2020, in line with the increasing threat landscape that the industry faces within non-financial risk, we formed a new 'Operational & Resilience Risk' sub-function, created from the merge between the former Operational risk team and the new second-line of defense team: Resilience risks team. The sub-function provides robust first line of defence oversight and risk steward oversight, supported by clear plans and evidenced by effective and timely independent challenge. The sub-function challenges the status quo ensuring that the first line of defence are focusing firmly and priority tasks;

Regulatory disposition

Basel II regulatory dispositions require that banking institutions take into account the operational risk management on three levels:

- In terms of capital requirements to take into account all banking risks and their economic reality (Pillar I).
- In terms of operational risk framework, meaning an implementation of an internal framework to manage risks which should enhance the prudential supervision by the national supervisors (Pillar II).
- In terms of information and financial communication on the matter, intended to administrators, supervisory authorities, shareholders, etc. (Pillar III).

Beyond regulatory requirements, managing operational risks and the permanent evolution of the control framework depending on changing activities and regulations to reduce losses from the Profit & Loss ('P&L') is a major strategic issue for HSBC Continental Europe and also improves customer experiences in our daily activities.

Operational Risk Management – Methodology defined by the regulator

Regulators have defined three methods which are the following:

- Basic approach;
- Standardised approach;
- Advanced approach.

Each of these methods is more complex than the other to determine the capital required to cover operational losses, leading to more complexity in terms of operational risk management.

Each method is linked to specific requirements in terms of risk management and external information on the framework of which implementation is a condition for the approach application.

Like HSBC Group, HSBC Continental Europe currently uses the standardised approach in terms of operational risks.

This approach is based on the application of different ratios (12 per cent, 15 per cent, 18 per cent) to the average gross income (over three years) of each one of the eight business lines defined by the Basel II framework.

It implies that a method has to be determined to divide the global gross income between business lines defined by the regulator.

Among qualitative criteria used for this method, the implementation of an internal operational risk framework is required and needs to include the following aspects:

- regular inventory of operational losses;
- potential operational risks identification for all entities;
- implementation of risk management processes, by defining and implementing action plans to mitigate the risks and by monitoring risk indicators;
- implementation of an independent structure to manage those risks;
- regular communication of information about the evolution of these risks to the executive management.

Quantitative aspects

The Finance department is in charge of calculating capital requirement related to operational risks and communicating it to the *Autorité de contrôle prudentiel et de résolution ('ACPR')* and the European central bank ('ECB').

First, the Net Banking Income ('NBI') has to be divided between the eight business lines defined by Basel II requirements to calculate the regulatory capital allocation. This task involves splitting the NBI by entities.

For operational losses, COREP (COmmon solvency ratio REPorting) statements are produced and communicated to the *ACPR* by the Finance department on behalf of HSBC Continental Europe; the Operational & Resilience Risk function with the support of the Region contributes to the production of two of these three COREP statements: Operational Risk Details and Operational Risk Large Loss Details on the consolidated perimeter of HSBC Continental Europe, excluding its subsidiary HSBC SFH (France), 100 per cent owned, which is specialised in the issuance of Covered Bonds and is monitored directly by the Finance department.

COREP is a prudential reporting implemented by the European banking supervision committee. It has been created based on English words: COmmon solvency ratio REPorting. It relates to the sovereign solvability ratio linked to Basel II agreement.

Using information recorded by Business Risk and Control Management ('BRCM')/Chief Control Officer ('CCO') in the operational risk management system, the Operational Risk function is in charge of the first level of controls of these statements.

	Regulatory Capital Charge %
Basel Lines of Business	
Corporate Finance	18
Trading and Sales	18
Retail Banking	12
Commercial Banking	15
Payments and Settlement	18
Agency Services	15
Asset Management	12
Retail Brokerage	12

Qualitative aspects

Tasks include the following activities:

Specific organisation in charge of monitoring and managing operational risks:

- identification, scoring and actualisation of potential risks to which group entities are exposed and first level controls to mitigate them;
- close monitoring of main material risks for the Group or concerned entities;
- definition and monitoring of action plans to mitigate the most material risks;
- annual definition of operational risk tolerance;
- recording and analysis of operational losses, notably regarding tolerance and reporting to executive management;
- promotion of operational risk culture intended to all group entities, through work performed by Operational & Resilience Risk function and Business Risk and Control Management ('BRCM')/Chief Control Officer ('CCO') and training and awareness actions;
- centralisation and coordination of HSBC Continental Europe Operational Risk Meeting ('ORM') work chaired by the Chief Risk Officer;
- contribution to operational risk management systems evolution;
- implementation and monitoring of operational risk indicators.

Permanent Control

The permanent control is primarily based on controls carried out by the managers responsible for each activity. The purpose of these controls is to ascertain that the activity is conducted in accordance with all internal, external and regulatory rules and is up to standard. The key responsibility for control falls to the managers of the various businesses, functions and HSBC Operations, Services and Technology.

An independent control framework completes this first level of control. This comprises mainly:

- Business Risk and Control Management ('BRCM') and Chief Control Officer ('CCO') teams, who monitor and manage risks in their business/function;
- Functions acting as second line of defence, particularly Compliance, responsible for non-compliance risk for HSBC Continental Europe as a whole as defined in the article 10 p) of the French Order of 3 November 2014;
- Operational & Resilience Risk ('ORR') function, in charge of overseeing the non-financial risks management framework. The function oversees the work carried out by Business Risk and Control Management ('BRCM')/Chief Control Officer ('CCO') teams on operational risks within the businesses, functions and HSBC Operations, Services and Technology, teams who report hierarchically to these businesses and functions heads. The Operational & Resilience Risk function works closely with Functions acting as second line of defence, responsible for overseeing risks, within their perimeter. The function acts also as Risk steward for Resilience risks which includes risks related to goods and people safety, business continuity, cybersecurity, IT systems, third parties, transaction processing and data; and
- lastly, number of committees, forums and working groups that examine the results of controls and the main deficiencies.

To comply with the American Sarbanes-Oxley law ('SOX'), the HSBC Group has implemented since 2006 a framework for documenting and assessing internal control, with regard to the processes and operations involved in drawing up financial statements.

HSBC Continental Europe's Finance Department is responsible for coordinating all SOX measures and summarising their results.

Twice a year, the 'SOX 4 Way Meeting', chaired by the Chief Financial Officer, and primarily comprising the Statutory Auditors, the Chief Accountant and the Periodic Control Officer of HSBC Continental Europe, reviews:

- any SOX deficiencies revealed by the three lines of defence;
- the result of tests run by the Statutory Auditors;
- action plans progress and status.

On a quarterly basis, HSBC Continental Europe's Audit Committee and the Risk Committee are informed of the results of controls carried out for SOX compliance purposes and of progress made in the action plans.

Within the permanent control process, the Risk function, overseen by the Chief Risk Officer ('CRO'), plays a major role. It is composed by specialised directions:

- Operational & Resilience Risk – in charge of monitoring and coordinating the permanent control framework and manages non financial risks. The function acts also as Risk steward for risks related to goods and people safety, business continuity, cyber-security, IT systems, third parties, transaction processing and data;
- Retail Credit Risk – Credit Risk on the retail market;
- Wholesale Credit and Market Risk – Credit risk on the corporate market and market risk;
- Independent Model Review;
- Global Risk Analytics – Models elaboration and follow-up;
- the Chief Risk Officer ('CRO') relies also on other functions to ensure a complete and accurate risk oversight (Human Resources, Finance function as regards with accounting, liquidity, structural interest rate, forex and tax risks, and HSBC Operations, Services and Technology in particular for the oversight of IT and outsourced services). Functions at which we can add Compliance function including, Financial Crime Compliance and Regulatory Compliance, which report directly to the Chief Executive Officer.

All risk reports presented to the HSBC Continental Europe RMM, feed the HSBC Continental Europe's Executive Committee, the Audit Committee, the Risk Committee and the Board of Directors of HSBC Continental Europe.

HSBC Continental Europe RMM includes bank’s European branches and is thus supported by risk committees from each business.

HSBC Group Manuals

The Group's Global Principles set an overarching standard for all other policies and procedures and are fundamental to the Group’s risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and our colleagues fairly at all times.

All the HSBC Group’s business activities must be fully documented in manuals or compendia of procedures. Functional Instruction Manuals are used to outline how specific risks are managed. They define the minimum risk management and control requirements that must be adopted throughout the organisation to ensure consistency and appropriate management of each risk in the taxonomy. They contain detailed policies and procedures relating to a specific business or function, product or activity, which must be adhered to throughout the HSBC Group, barring dispensation granted by the Functional Instruction Manual’s owner for the HSBC Group.

Internal circulars are the key vehicle for communicating internal standards and rules derived from French regulatory requirements or HSBC Group standards that apply to several or all the HSBC Group structures operating in France or within its branches. They are readily available on the HSBC Continental Europe Intranet and have been communicated to the new branches of HSBC Continental Europe, if applicable to them. The drafting, circulation and storing of circulars are governed by precise rules (also formally set out in a circular) and are regularly updated.

Handbook and codes of conduct

The Internal Rules covers ethical provisions applied to all staff relating to adherence with confidentiality, compliance with laws and regulations and professional integrity. In addition to these rules, each of the bank’s businesses or activities may have a specific code of conduct and/or compliance manuals that collate operational application procedures relating to staff ethic and compliance with laws and regulations. Staff members qualified as ‘High Risk Role’ are also subject to specific requirements relating to personal transactions. A conduct handbook available for all employees illustrates with examples to help staff making actions and decisions in accordance with the standards included in the ‘Global Principles’ document, with a key focus on values and conduct approach, applicable to every HSBC employees.

In 2020, HSBC deployed a code of conduct Anti Bribery & Corruption for France and its European branches. It has been attached to the Internal Rules, to guide daily actions from all people attached to HSBC entities in France.

The internal committees, forums and working groups

Risks and internal control oversight are driven by a number of dedicated committees, forums and working groups which facilitate management, communication and monitoring of operational risk.

Senior Management is kept regularly informed of the organisation and findings of permanent and periodic controls, in particular through various dedicated committees and working groups that will be presented further in the part called ‘Governance’.

Non financial (or Operational) Risk Management Framework

In 2020, we combined the second line of defence Operational Risk and second line of defence Resilience Risk sub-functions. The sub-function provides robust first line of defence oversight and risk steward oversight, supported by clear plans and evidenced by effective and timely independent challenge. The sub-function challenges the status quo ensuring that the first line of defence are focused firmly on priority tasks.

The Operational & Resilience Risk Function provides direction, insight and challenge on the management of non financial risks, along with an overall assessment of the non financial risk exposure versus Board appetite. The Operational & Resilience Risk function also monitor use and adoption of HSBC’s non financial risk approach and reports on this to the Non Financial Risk Management Board, a subcommittee of the Group Risk Management Meeting.

The Operational & Resilience Risk function, supervised directly by the Chief Risk Officer, brings a holistic vision of risks. It has a consolidation and harmonisation role and provides an overview of the main operational risks and permanent control to the executive management, the Risk Committee and HSBC Group, collaborating with Business Risk and Control Management (‘BRCM’)/Chief Control Officer (‘CCO’) teams and functions acting in the second line of defence on critical subjects, such as risk maps reviews, the design and monitoring of action plans, incident reporting, risk indicators and control plans.

The function is also in charge of the HSBC Continental Europe Risk Management Meeting secretariat which allows to achieve a transverse vision of risks, both complete and prioritised and if possible, prospective of the main operational risk issues of all HSBC Continental Europe entities, including International locations to the Chief Risk Officer, Chair of the Risk Management Meeting, and to the other members of the HSBC Continental Europe senior management.

Previously composed by 16 level 1 risks, HSBC Continental Europe’s operational risks (or non financial risks) taxonomy has been simplified and is now composed by seven risks, which synthesise main non financial risks that a bank faces:

- Financial Reporting and Tax Risk
- Resilience Risk
- Financial Crime and Fraud Risk
- People Risk
- Regulatory Compliance Risk
- Legal Risk
- Model Risk

Operational risks may have consequences on reputational risk. Any lapse by HSBC Continental Europe in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk which may impact its relationship with its clients, counterparts, shareholders, stakeholders and regulators. Safeguarding and building upon the Group’s reputation is the responsibility of each employee of HSBC Continental Europe.

Identification and Management of Non financial (Operational) Risks

Governance

The general organisation of the permanent control is supported by Operational & Resilience Risk function regarding non financial risks. As mentioned earlier, this function works in close partnership with permanent control teams from businesses, functions, HSBC Operations, Services and Technology and with other functions working in the second line of defence. A collaboration has also been implemented as soon as 2018 with the HSBC Bank plc International Chief Risk Officer and Chief Risk Officers from international locations who report to him in order to ensure a comprehensive risk management of all entities within HSBC Continental Europe perimeter.

Operational & Resilience Risk function hosts regularly a specific meeting called Operational Risk Meeting which deal with transversal subjects that have an operational impact, and disseminate risk culture through businesses and functions. That framework is supported by forums and committees related to permanent control and to operational risks in businesses and functions, that are appealed to ensure the oversight of operational risk management and permanent control for each entity.

The HSBC Continental Europe group has policies covering the process for identification, reporting, management, control and prevention of operational risks, specifying particularly that:

- operational risk management is first and foremost the responsibility of managers through their operations;
- IT systems are used to identify and report operational risks and generate regular and appropriate reports;
- identification and assessment of risks and controls across the entire scope are updated on an ongoing basis in order to identify every significant change;
- operational losses are gathered and reported on a monthly basis.

HSBC Continental Europe uses the standardised approach for calculating the regulatory capital needed to cover operational risks. To estimate economic capital, HSBC Continental Europe uses the same concept, but as applied to certain specific businesses in the HSBC Group's structure instead of the eight businesses of the regulatory approach.

Operational Risk Assessment

Risk Maps

Compliant with the Operational Risk Functional Instruction Manual, the implementation of risk maps is under the responsibility of Risk owners and Control owners. Business Risk and Control Management ('BRCM')/Chief Control Officer ('CCO') teams coordinate the implementation and regular update of risk maps.

They are designed for a predetermined perimeter thanks to a methodology called Risk and Control Assessment ('RCA') based on the assessment of inherent risks, which is the risk level without considering the control in place, and on the assessment of residual risks, which is the risk level remaining after taking into consideration the control framework. The result of the assessment is registered in a four level scale:

- Very High Risk
- High Risk
- Medium Risk
- Low Risk

This risk hierarchy allows risk owners and HSBC Continental Europe senior management to prioritize risk management and facilitates the decision-making process.

This approach by risk levels helps to elaborate and define first and second level controls within a risk-based approach.

Risk maps cover non financial (or operational) risks to which entities are exposed and reflect key controls from the first level along with the second level control framework that enable to mitigate the most significant risks.

The establishment and update of risk maps are done on a continuous basis with the help of control owners based on:

- results of controls performed by operational teams;
- recommendations from permanent control reviews performed by Business Risk and Control Management ('BRCM')/Chief Control Officer ('CCO');
- results of independent controls done by Assurance teams from the second line of defence;
- recommendations from Risk Stewards;
- recommendations from periodic control reports, or third parties reports (including regulators);
- internal or external events.

Risk maps for non financial risks are formally presented to the Chief Risk Officer on a yearly basis, in order to ensure the relevance of those risks compared to the other risks that the bank faces.

Based on risk maps realised by businesses, functions and HSBC Operations, Services and Technology, second level monitoring plans are defined and updated continually. Monitoring plans are elaborated following a risk-based approach in order to ensure a regular and comprehensive coverage of most significant risks. Deficiencies identified are documented in the operational risk system, Helios.

Material issues identified in control plans are presented to the Risk Management Meeting of HSBC Continental Europe and to the Risk Committee.

In 2020, the main risks identified by HSBC Continental Europe, with specific action plans in place, are related to:

- Compliance;
- Resilience – Information & Cyber Security;
- Model.

Incidents management and escalation

Major operational incidents linked to HSBC activities are reported to the HSBC Continental Europe Risk Management Meeting on the basis of information stored in the operational risk management system, Helios. That system manages in a centralised manner identification and updating processes, operational losses reports and the follow-up of action plans that aim to mitigate the main risks.

Operational incidents nature

The Functional Instruction Manual allows to categorise operational incidents in respect to different natures and also to distinguish various impact types associated to them. Significant incidents result in a detailed analyse of root causes and in the review of other processes that might be impacted by the same root causes in order to control them as soon as possible. A detailed analysis of control deficiencies is established and associated risk maps and procedures have to be updated consequently. Business Risk and Control Management ('BRCM')/Chief Control Officer ('CCO') are responsible of these tasks.

Main risks, incidents and risk indicators may result in action plans integrated into the monitoring and control missions performed by Business Risk and Control Management ('BRCM')/Chief Control Officer ('CCO')and Assurance teams. These action plans are also monitored by 'risk' bodies from businesses and functions concerned.

Operational risk losses: quantitative data starting from 2012

Operational losses from 2012 to end of 2020 per risk category [*] (in millions of EUR)

	Accounting risk	Building unavailability and work place safety event	Employment practices and relations event	External fraud event	Failure in other principal risk processing	Information, technology, and cyber security risk	Internal fraud risk	Legal risk	Transaction processing	Regulatory compliance risk	Security of people and physical assets event	Systems and data integrity event	Financial reporting and tax risk	Finan-cial Crime event	Model risk ***	Resilience risk ***	Breach of fiduciary obligations	Total
2012	1,1	—	0,7	10,5	2,1	0,1	0,5	(0,8)	7,5	5,1	0,1	1	0,3	—	—	—	—	28,200
2013	0,3	—	1,6	12,1	2,6	0,2	0,2	0,1	3,2	0,4	—	2,2	(2,5)	—	—	—	—	20,400*
2014	—	0,1	1,3	6,4	0,6	—	0,1	0,3	5,3	(2,8)	—	(0,3)	(0,1)	—	—	—	—	10,900
2015	0,1	—	1,1	4,8	1,8	—	0,1	0,6	4,6	3,4	—	0,5	—	—	—	—	—	17,000
2016	—	—	0,6	11,1	(0,2)	—	—	0,1	(15,7)	36,2	—	0,3	—	—	—	—	—	32,400
2017	—	0,1	0,9	2,9	1,4	—	0,2	—	3,4	0,7	—	0,1	1	—	—	—	—	10,700
2018	7,83	—	(0,07)	2,4	0,68	—	—	0,7	3,36	2	—	0,1	0,4	—	—	—	—	17,400
2019	—	0,016	0,99	2,48	1,68	1,22	0,023	(0,04)	8,09	(1,19)	—	—	1,8	—	—	—	0,019	15,083
2020	**—**	**0.035**	**0.27**	**2.31**	**1.35**	**0.22**	**0.006**	**0**	**54.32**	**2.7**	**—**	**—**	**0.09**	**—**	**17.1**	**3.28**	**0.008**	**81.699**

[*] *Figures Source: Operational risk system (Helios). Level 1/level 2 from the risk taxonomy to take into consideration the successive risks taxonomy changes since 2012.*
[**] *Excluding a one-off legacy internal event within GBM.*
[***] *New risks created in 2020 as part of the changes operated in the risk taxonomy.*

Number of events (financial impact) per risk category[*]

	Accounting risk	Building Unavailability and work-place safety event	Employment practices and relations event	External fraud event	Failure in other principal risk processing	Information, technology, and cyber security risk	Internal fraud risk	Legal risk	Transaction processing	Regulatory compliance risk	Security of people and physical assets event	Systems and data integrity event	Financial reporting and tax risk	Financial Crime event	Model risk ***	Resilience risk ***	Breach of fiduciary obligations	Total
2012	3	—	27	137	52	1	4	35	200	108	2	21	5	—	—	—	—	595
2013	1	—	38	133	46	2	9	34	150	39	1	31	7	—	—	—	—	491*
2014	—	2	34	227	33	1	1	21	146	53	1	19	6	—	—	—	—	544
2015	1	—	57	153	40	—	5	17	149	56	—	7	2	—	—	—	—	487
2016	—	—	26	134	41	—	2	19	140	51	—	10	—	—	—	—	—	423
2017	1	1	33	112	32	1	5	5	248	41	—	7	3	—	—	—	—	489
2018	4	—	34	112	35	—	—	8	276	26	—	17	6	—	—	—	—	518
2019	—	1	38	101	63	8	2	2	194	27	—	—	9	—	—	—	10	455
2020	**—**	**1**	**35**	**70**	**42**	**8**	**3**	**0**	**183**	**38**	**—**	**—**	**2**	**0**	**2**	**27**	**6**	**417**

[*] *Figures Source: Operational risk system (Helios).Level 1/Level 2 from the risk taxonomy to take into consideration the successive risks taxonomy changes since 2012.*
[**] *Excluding a one-off legacy internal event within GBM.*
[***] *New risks created in 2020 as part of the changes operated in the risk taxonomy.*

RWA and capital requirements related to operational risk to the end of 2020

(in millions of euros)	RWAs	Capital requirements
WPB	**969**	**78**
CMB	**1,085**	**87**
GBM	**1,115**	**89**
Corporate Centre	**114**	**9**
Total	**3,283**	**263**

The year's highlights 2020

In 2020, in line with the increasing threat landscape that the industry faces within non-financial risk, we formed a new Operational & Resilience Risk sub-function, created from the merge between the former Operational Risk team and the new second line of defence team: Resilience risk team.

As part of the Group NFRO (Non-Financial Risk Optimisation) Programme, aiming to simplify and enhance non financial risks approach, certain existing risks have been consolidated into broader categories, which is the case for Resilience risk. It includes Cybersecurity, Systems and data, transaction processing, business continuity, workplace safety and third party management.

The Covid-19 outbreak, as a new systemic risk, is still a key point of attention within the Bank, requiring robust contingency plans in a context where the Banks assume critical financial service roles. Operational & resilience risk function has been fully involved to ensure appropriate management of non financial risks during the period. The crisis has been an opportunity to demonstrate the maturity of Conduct principles applied in all decisions and actions with a balanced exchange of value between the bank and customers and to strongly collaborate across Lines of Business to optimise best practices and processes to deliver good outcomes to customers.

The Covid-19 pandemic highlighted the robustness of the business continuity plan as well as the professionalism of our well trained staff.

Risk culture spread has continued and mandatory trainings related to Non-financial Risks, including Financial Crime Risks, IT Security and Regulatory Compliance have been deployed throughout the year.

Compliance

In 2020, the level of inherent Compliance risk remained medium.

The industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision from the ECB, the SRB, the ACPR, AMF, and the AFA.

HSBC Continental Europe has continued to improve Financial Crime and Regulatory Compliance frameworks.

Due to the integration, in 2020, at the regional level, of the Regulatory Conduct and Financial Crime into a single Compliance function, the Chief Compliance Officer of Continental Europe (hereafter 'CE CCO') oversees now both functions as well as shared compliance teams.

The CE CCO reports the exercise of his role directly to the Executive Directors as well as the supervisory body via the Risk Committee and the Board of Directors in accordance with Articles 30 and 31 of the French Order of 3 November 2014.

The CE CCO carries out the roles of Head of Compliance for Investment Services ('RCSI') for HSBC Continental Europe in respect of Articles 312-1 and 312-2 of the General Regulation of the AMF. The different Heads of Compliance for Investment Services ('RCSI'), Heads of Compliance and Internal Control ('RCCI') for the legal entities of HSBC Continental Europe, come under the responsibility of the Head of the Compliance function. As a key function holder within the meaning of Article L.354-1 of the Insurance Code, the Head of RC for HSBC Assurances Vie remains accountable to the ACPR for Financial Crime matters. Reporting mechanisms have been established to ensure the appropriate level of information of the key function holder. For the EEA branches of HSBC Continental Europe, the organisation principles described above apply to them in a similar way.

Regulatory compliance

Risk Management Framework

The Compliance Advisory function is in charge of the regulatory compliance risk control framework of the HSBC Continental Europe). The Compliance Advisory function relies, on the regulatory monitoring of its Regulatory Affairs teams and also on the monitoring of the Legal function in order to identify the modifications of legislative and regulatory texts as well as developments of jurisprudence having an impact on the activities of the HSBC Continental Europe.

The analysis of RC risks is documented in maps recording the legislative, regulatory, professional provisions, as well as the provisions specific to the HSBC Group, applicable to each business or function, and the procedures and controls implemented to ensure compliance with said provisions. The RC risk maps are updated on a regular basis depending on trigger events.

The RC risks relating to the activities of HSBC Continental Europe stem primarily from the following areas: customer protection, compliance with conduct rules relating to client interests, complaint handling, the protection of the integrity and transparency of financial markets, the preservation of the confidentiality of information, employees code of ethics, the prevention of conflicts of interest and compliance with the applicable rules in terms of marketing (both on a domestic and a cross-border basis).

2020 has been significantly impacted by the containment due to the state of health emergency caused by the Covid-19 which directly impacted Bank' distribution strategy and processes in place. The announced economic challenges have required a focus on those of our clients in difficult financial situations and a strengthened attention brought to our conduct setting.

The Compliance Advisory function has monitored information related to coronavirus and has provided its support to the business in order to provide adequate measures and notably, the risks mitigation measures where necessary.

All Compliance Advisory teams contributed to ensure the right level of continuity in their risk stewardship over the activities of their respective HSBC Continental Europe business lines, despite the difficulties related with the Covid crisis.

Throughout 2020, the Compliance Advisory function further improved its monitoring of the EEA branches of HSBC Continental Europe acquired or created in 2019.

Lastly, during the year 2020, HSBC Continental Europe continued its work to develop effective responses to the challenges of the UK's withdrawal from the European Union and of the IBOR transition, in line with the requirements of the regulators.

Staff training and awareness

The Compliance Function of the HSBC Group, in conjunction with the Training Department, draws up an annual staff training programme covering RC risks. Training sessions, classroom-based or in the form of e-learning, are organised in the different businesses and functions. These trainings include notably a focus on the requirements of regulators and supervision authorities and the importance of effective relationships with them.

In 2020, training programmes were provided on the following themes :

- four mandatory trainings for all the HSBC Continental Europe's employees (included those of the branches) on the following Conduct themes: Conflicts of Interest, Market Conduct Risks, values of HSBC Continental Europe (Global Principles, Regulatory Conduct, Workplace Harassment with guidance for 'speaking up'), and Volcker rule ;
- several training depending on the business line, on the following themes: the client assets, the benchmark and the IBOR, the swap and the Swap Execution Facility, the protection of the customer interests (the training was about 'Putting customer first' and regarded the communicating products, the post-sale servicing and the complaints handling).

In France, an additional training about the financially fragile clients, has also been assigned to involved teams.

Regarding the mandatory training, it was rolled out among all the employees of HSBC Continental Europe and had to be completed within a prescribed time. The company's Management monitored the completion rate for this training programme each month and took corrective measures, where applicable, enabling all employees to complete the programme within short timeframes.

In addition to global trainings, information is provided annually on the update of RC policies to the impacted teams of HSBC Continental Europe.

Compliance examination procedures and detection and prevention tools

HSBC Continental Europe has specific compliance examination procedures, in accordance with the provisions of Articles 35 to 38 of the Order of 3 November 2014 relating to banks' internal control systems, as well as tools for detecting and preventing RC risks.

These procedures and tools are the subject of regular updates and upgrades.

Control System

The Compliance function is considered to be first and foremost a Second Line of Defence player in the HSBC Group. This role is ensured:

- firstly, by implementing the policies or circulars, by advising and training the operating staff in the businesses or functions;
- secondly, by conducting cross-functional theme-based reviews carried out by the Compliance Assurance team.

The reporting of issues and RC Risk Control Forums

Monitoring of the functioning of the control compliance framework relies in the first instance on existing reporting procedures within the Compliance function, as well as on the information made available through governance forums.

Problems identified in the implementation of the compliance obligations are the subject of an incident report that is drawn up and must be transmitted to the appropriate level within the Compliance Function, followed by regular monitoring of the actions implemented to rectify the situation, using a dedicated tool called IRIS (Integrated Regulatory Information System).

The incidents identified as having a high risk are also monitored in a specific tool (Helios) and constitute a trigger event to review the risk identified.

Supervision and recording of Regulatory Engagements

Under the consolidated approach to non-compliance risks, the Compliance Function ensures centralised monitoring of Regulatory Engagements within entities of the HSBC Group regarding notably FC and RC risks, mostly via the Regulatory Affairs team. Since February 2018, the HSBC Group records the Material Regulatory Engagements between HSBC and its regulators and supervision authorities in a tool dedicated to the supervision.

RC Risk Control Forums

The functioning of the framework and the main RC risks identified are reviewed through dedicated control forums, consisting of both compliance representatives and operating managers. RC risks are also reviewed by governance risk management forums within business lines or functions.

These forums either have a decision-making role, in terms of managing the regulatory compliance control system, or the role of providing information to Senior Management on the functioning of the system, identified issues, and the corrective measures undertaken.

RC risks are reviewed by the Risk Management Meeting ('RMM'), which is the governance forum within HSBC Continental Europe for risk management and permanent control. It has a decision-making power regarding the organisation of the risk control and management frameworks.

The quarterly Conduct & Regulatory Compliance Forum meets under the chairmanship of the Chief Executive Officer, and includes Executive Committee members who are Business Heads.

To ensure the appropriate level of information of the Senior Management of HSBC Continental Europe on the functioning of the risk control framework, the main topics raised during the Forum include:

- The oversight of conduct implemented by the business lines through achievement, initiatives and risks regarding customer fair treatment and market integrity;
- The findings of the controls carried out by the Compliance Assurance team, the status of its recommendations and their implementation by action owners in the first line of defence;
- Cross-business items of significance regarding Regulatory Compliance, whether for information, for action and/or for decision by Senior Management.

Furthermore, regarding the risks related to new products and services as well as material changes and withdrawal for existing products, the majority of the businesses have specific bodies for the examination of products and services. In HSBC in France, all new products and material changes for existing products are subject to the approval from the Product Approval Committee, chaired by the Chief Executive Officer of HSBC Continental Europe, and whose secretariat is managed by RC.

To finish, in 2020, Compliance function organized on a quarterly basis a Forum on Whistleblowing with the main investigative functions (Human Resources, Compliance and FCI) with the following agenda:

- Monitor the whistleblowing activities with KPIs and MIs;
- Ensure a follow-up of cases, and especially the older ones;
- Develop any amendment to the governance arrangements in place;
- Share best practices; and
- Address any outstanding or common issues.

Financial Crime

System of control and identification of non-compliance risks

The Financial Crime ('FC') function relies, in particular, on the local legal monitoring of the French Legal function in order to identify the modifications of legislative and regulatory texts as well as jurisprudential developments having an impact on the activities of HSBC Continental Europe.

The analysis of non-compliance risks is documented in maps recording the legislative, regulatory, professional provisions, as well as the provisions specific to the HSBC Group, applicable to each business or function, and the procedures and controls implemented to ensure compliance with the said provisions. Noncompliance risk maps are regularly updated.

The non-FC risks relating to the activities of HSBC Continental Europe stem primarily from the following areas: Anti-Money Laundering, Counter Terrorism Financing, Anti-Bribery & Corruption, international financial sanctions respect, Fraud, and Tax-fraud.

Staff training and awareness

Staff training relating to fight against financial crime principally includes:

- Mandatory e-learnings ensuring all employees having sufficient Financial Crime Risks knowledge and their respective roles;
- Certifying training classroom-based for the FCC Risks employees most exposed: new employees follow a training and receive a certification within 90 days following their arrival in HSBC;

- A re-certification is performed annually;
- Ad hoc Training Plans: for employees who require further training for the realisation of their daily tasks in terms of Financial Crime.

Mandatory trainings are part of the staff performance assessment and are included in their variable pay.

Compliance examination procedures and detection and prevention tools

The HSBC Continental Europe group has specific compliance examination procedures, in accordance with the provisions of Articles 35 to 38 of the order of 3 November 2014 relating to banks' internal control systems, as well as tools for detecting and preventing non-FC risks. These procedures and tools are subject of regular updates and upgrades.

In 2020, HSBC Continental Europe has further progressed the programmes to reinforce the framework and mitigate the Financial Crime risks, particularly in relation to transaction monitoring, sanction efficiency and identification of attempts to finance terrorism.

Control System

This role is ensured:

- firstly, by implementing the policies or guidances, by advising and training the operating staff in the businesses or functions;
- secondly, by conducting cross-functional theme-based reviews carried out by the Compliance Assurance team ('Compliance assurance).
- In addition, FC France is in charge:
  - of the oversight of different branches in Europe in relation to Financial Crime, with a view to comply with HSBC Group policy and local regulatory requirements.
  - of the oversight of other HSBC Continental Europe countries in relation to Financial Crime with a view to comply with HSBC Group policy.

Issues reporting and the FC Compliance Committee

The control compliance framework follows up potential identified issues, relying on existing reporting procedures within FC, Compliance Assurance, Investigations and COO functions, as well as on information in regard to the supervisory bodies.

Issues reporting

Potential issues identified are raised to the attention of the management and reported in the Integrated Regulatory Information System ('IRIS') tool for appropriate action and follow-up, as well as to regulators when above previously defined thresholds as per Article 98 of the French Order of 3 November 2014. As part of a non-compliance risk consolidated approach, the FCC Function ensures, furthermore, a centralised monitoring of any supervisory authorities contacts within group's entities of HSBC Continental Europe.

The FC Compliance Committee

The functioning of the framework and the main non-compliance risks identified are reviewed through dedicated risk and control forums, consisting of both compliance function representatives and operating managers. These fora either have a decision-making role, in terms of managing the Financial crime risk and associated controls or the role of providing information to Senior Management on the functioning of the system, identified issues, and the corrective measures undertaken.

The main governance body is the Financial Crime Risk Management Committee ('FCRMC'), which is held on a monthly basis, and is chaired by the Chief Executive Officer in presence of the Head of FC France and among others, the Head of each Line of Business.

The FCRMC ensures monitoring of financial crime risks within the bank and has a decision-making role to define priorities and ensure the robustness of the system. From January 2020 to October 2020 the France FCRMC and HSBC Continental Europe overseas branches management committees were segregated.

Since October 2020, the committee has been united as one under the title of Continental Europe FCRMC, reporting directly to the HSBC Continental Europe Executive Committee, without discrepancy or demise from existing scope, as per previous year report.

The HSBC in Continental Europe FCRMC is fed by the Line of Business and HSBC Operations, Services and Technology FCRMCs with formalize governance. The Line of Business and HSBC Operations, Services and Technology FCRMCs are also held monthly, and are chaired by each Heads of Line of Business and the COO of the Bank. Moreover, these FCRMCs enable the management of financial crime compliance at a more granular level.

Legal risks and litigation management

The HSBC Continental Europe Legal Department is responsible for HSBC Continental Europe's legal risks oversight as a second line of defence, and helps the various HSBC Continental Europe group businesses and functions to prevent and control legal risk. The Legal Department is in charge of litigation follow-up. The Legal Department also supervises the legal teams of HSBC Continental Europe's subsidiaries and branches abroad.

Prevention of legal risks

The Legal Department is responsible for running the Legal Risks Forum which meets quarterly to examine situations likely to give rise to specific and significant legal risks. It also runs the Complex and Structured Transactions Meeting, which examines the legal, accounting, tax, financial, and reputational risks arising from complex structured transactions. The Legal Department participates in the Products Examination Committee, in the Operational Risks Forum, and in the Risk Management Meeting ('RMM') of HSBC Continental Europe, and is involved in due diligence procedures for market operations, structured transactions and any new acquisition (or disposal) of an entity or business by the HSBC Continental Europe.

The Legal Department is also responsible for managing risks, directly or indirectly, connected with defence litigation matters. It is involved in dealing with credit files requiring special management or in default. The Legal Department monitors other risks that might have a legal impact.

Control framework of legal risk

The Legal Risks Forum, chaired by the Chief Risk Officer, meets quarterly to ensure that the risks framework for legal risks remains adequate in the face of changes in laws, regulations and group organisation.

The Forum also examines the monitoring of incidents raised previously, the results of implemented controls, along with any new incidents and measures taken. It reports on its activities to the HSBC Continental Europe Operational Risks Forum.

This framework is wholly effective and a detailed description of it is given in a regularly updated internal procedure. In the operational risk framework, The Legal Department operates as First and Second line of Defence. A legal risks taxonomy has been defined to harmonise their identification and control. The Legal Department is deeply involved in the review and control of the legal risks assessed by the businesses and functions in their Risk and Control Assessments.

Litigation monitoring with regard to HSBC Continental Europe entities

The situation of the risks arising from significant litigation in progress against the HSBC Continental Europe is examined monthly by a committee run by Chief Accounting officer, chaired by the Chief Financial Officer and the Chief Risk Officer and is made up notably of representatives of the Finance Department, the Credit Department and the Legal Department. This committee decides upon the amount of the litigation provision to be charged or written back.

Cases in progress as at 31 December 2020 involving legal risks likely to have a significant effect on the financial situation of the HSBC Continental Europe net assets are set out below. These cases have given rise to appropriate provisions, as necessary.

Interbank commissions relating to electronic cheque processing

In 2002, a number of banks with retail networks, including HSBC Continental Europe forming part of an inter-branch committee sponsored by the French Banking Federation, introduced a system of interbank fees applying to the new electronic cheque processing termed *Echange d'Images Chèques ('EIC')*, the cheque image exchange system.

In March 2008, the French Competition Authority sent notification of a complaint to the 12 members of the committee – including HSBC Continental Europe – for the introduction of interbank fees when the *EIC* was set up.

On 20 September 2010, the French Competition Authority took an unfavourable decision as regards the scheme introduced in 2002. In substance, it found that the *EIC* constituted an illegal scheme, the purpose of which included effects on the cost of processing cheques causing an increase in costs charged on 'major remitter' customers. The banks involved in setting up this charging system were fined a total of EUR 384.9 million. HSBC Continental Europe was ordered to pay a fine of EUR 9.05 million. HSBC Continental Europe, together with the other banks that were fined, except the Banque de France, decided to appeal this unfavourable decision.

The banks actually contest as much the anticompetitive purpose as the anticompetitive effect of the *EIC*-related commission and argue that it has no significant effect on the costs of banking services. The banks, including HSBC Continental Europe, further question the method used in calculating the fines imposed upon them.

On 23 February 2012, the Paris Court of Appeal overturned the decision of the French Competition Authority, finding that the Authority had failed to demonstrate a restriction by object. The Paris Court of Appeal cleared the banks of wrongdoing and ordered the repayment of fines paid by the banks.

The French Competition Authority appealed to the Supreme Court against the decision.

On 14 April 2015, the French Supreme Court overturned the decision of the Paris Court of Appeal of 23 February 2012 solely on procedural grounds.

Consequently, the banks had to transfer back the sums reimbursed on the basis of the decision of the Paris Court of Appeal of 23 February 2012.

The French Supreme Court referred the parties back to the Paris Court of Appeal.

On 21 December 2017, the Paris Court of Appeal decided that the banks, including HSBC Continental Europe, did infringe competition law. The amount of the fine against HSBC Continental Europe is unchanged.

HSBC Continental Europe has appealed the 21 December 2017 Paris Court of Appeal's decision before the French Supreme court. On 29 January 2020, the Supreme Court decided to quash the 2017 appeal decision and to refer the case back to the Paris Court of Appeals.

The Apollonia case

As was the case for around 20 other banks, HSBC worked during a limited period of time (from early 2006 to April 2007), and mainly in one branch, with a financial adviser and estate agent, known as Apollonia. The latter offered its clients (mainly independent professionals) 'turnkey' tax efficient products of the *Loueur Meublé Professionnel ('LMP')* (professional lessor of furnished accommodations) type and for a small number of investors *'Loi Robien'* type tax efficient products.

Between April 2006 and April 2007, 184 property loan applications were approved, for a total of EUR 29 million, bearing in mind that different media have said the total amount of operations by Apollonia with all banks purportedly reached around EUR 2 billion.

At the end of September 2008, HSBC Continental Europe became aware of the use of inappropriate marketing methods by Apollonia. Moreover, it appeared that most of the borrowers took out several loans through Apollonia from various banks without notifying HSBC Continental Europe.

HSBC Continental Europe is involved as a civil law party, giving it access to the criminal file. From this, it has become apparent that a very large proportion of the official agency authorisations, signed by the buyers giving authority to sign purchase and sales deeds, were not properly prepared.

HSBC Continental Europe systematically files proceedings against those investors with loan repayments due but the hearings are often held in abeyance because of the criminal proceedings under way. However, in order to settle the financial aspects of the matter, without waiting for the outcome of criminal proceedings, out-of-court settlements have already been reached with some borrowers and talks are continuing with other borrowers. Proceedings have also been commenced against the notaries involved and their insurer MMA. These proceedings have also been adjourned for the time being.

Adequate provisions have been recorded for the Apollonia case in the light of information available to Senior Management.

HSBC Bank Polska S.A.: ACTION Case

On 29 June 2018, HSBC Continental Europe acquired from HSBC Bank plc 100 per cent of the shares of HSBC Bank Polska S.A. 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 HSBC Bank Polska S.A. prior to the acquisition of HSBC Bank Polska S.A. HSBC Bank Polska S.A. is involved in the proceeding as described below. In April 2017, ACTION brought an action against HSBC Bank Polska S.A. alleging, among other things, breach of a facility agreement and claiming damages and indemnification for lost profits. The proceeding is ongoing.

European interbank offered rates investigations and litigation

See Note 36 of the consolidated financial statements with regard to other significant legal proceedings and regulatory matters relating to HSBC Group entities generally, including HSBC Continental Europe.

Other regulatory, civil law or arbitration proceedings

To date, as far as HSBC Continental Europe is aware, it is not threatened by any other regulatory, civil law or arbitration proceedings that are in progress or in suspense against it that might have, or over the last 12 months have had, any significant effect on the financial situation or the profitability of the company and/or of the group.

Tax risk

Overview

HSBC seeks to apply the spirit and the letter of the law in all territories where we operate. As a consequence, we pay our fair share of tax in the countries where we operate.

HSBC does not undertake transactions whose sole purpose is to abuse the tax system or otherwise employ tax avoidance strategies, for example by artificially diverting profits to low tax jurisdictions.

HSBC does not deal with customers who are not tax transparent or who may want to use our products to avoid taxation.

HSBC will use tax incentives or opportunities for obtaining tax efficiencies where these:

- Are aligned with the intended policy objectives of the relevant government; and
- Are aligned with business or operational objectives.

Governance and structure

The HSBC Continental Europe Tax Department ('DAF'), oversees as a Second Line of Defence the HSBC Continental Europe group tax risk.

DAF attends the Product Examination Committee, the Committees related to Internal Control and Operational Risk and Wealth Management Oversight Committee ('WMOC') and is part of the GBM Due Diligence process.

Key risk management process

Tax risk is managed in accordance with Non Financial Risk Optimisation Program ('NFRO') which defines minimum standards and processes, and the governance structure for the management of operational risk and internal control.

Responsibility for minimising operational risk lies with all HSBC employees. Specifically, all staff are required to manage operational risks, including tax risks of the business and operational activities for which they are responsible.

The Tax Policy covers three key risks:

- Tax payments – risk of failure to withhold, charge or pay taxes;
- Tax compliance – risk of failure to report and file accurate tax returns including customer information;
- Tax avoidance – risk that HSBC enters into transactions on its own account or promotes products and services to customers that are not consistent with the spirit of the law (tax avoidance);

HSBC manages the three key tax risks by:

- Identifying the risks;
- Ensuring that the right controls are in place to prevent, manage and reduce risk;
- Setting policy and guidelines for managing tax risks;
- Providing support and guidance to support the above policies; and
- Employing an experienced, professionally qualified in-house tax team. Our in-house team is supported by advice from external advisers whenever in-house expertise is not available.

Global Internal Audit is responsible for providing independent assurance that HSBC is managing tax risk effectively.

Key developments 2020

HSBC continues to apply global initiatives to improve tax transparency such as:

- The US Foreign Account Tax Compliance Act ('FATCA');
- The OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- The Capital Requirements Directive IV ('CRD IV') Country by Country reporting;
- The OECD Base Erosion and Profit Shifting ('BEPS') initiative; and
- DAC6 disclosure of aggressive operations.

Accounting risk

The accounting procedures

The Finance Department is responsible for the effective enforcement of accounting policies and accounting control processes in compliance with the framework of HSBC Continental Europe. It defines, for all the entities of HSBC Continental Europe, the procedures and controls to be applied. This particularly concerns the procedures and accounting policies, the procedures of certification and justification of Balance Sheet and Off Balance Sheet and the Analytical Review of accounts that support the preparation of the financial statements.

The accounting and regulatory audit trail is documented as per the procedures and documentations established under the responsibility of the departments of Financial Control ('FC').

The Finance Department updates and circulates the procedures and accounting guidance which complies with the French GAAP and International Financial Reporting Standards ('IFRS'). These principles are compliant with the French Commercial Law, French accounting standards and IFRS.

The enforcement of IFRS by all the entities of HSBC Continental Europe group is also in compliance with the accounting principles of the HSBC Group.

Organisation of accounting production and financial reporting

The vast majority of reporting documents are produced monthly and on both a non-consolidated and consolidated basis. These reportings present on year on year analysis including full substantiation of significant variances.

Two sets of accounts are prepared, one under French GAAP and one under IFRS. The HSBC Group's integrated 'SARACEN' consolidation software produces IFRS-compliant consolidated financial reporting statements that also meet all the requirements of the local regulator and the parent company.

A financial and balance sheet datawarehouse enables reconciliation and ensures that accounting, financial, regulatory and management reports are consistent with financial accounting. The datawarehouse stores data from both HSBC Continental Europe and most of its subsidiaries. It contains various types of data: accounting data, inventories, or detailed breakdowns of carrying values depending on the information required for internal and external disclosure. Consistency controls have been established within the datawarehouse, which feeds the consolidation software and is used to produce the various French regulatory reports via the Report Authority software.

Control of accounting production

The financial control of the Bank is organised around three main axes:

- The monthly accounting certification;
- The analytical review of the financial statements;
- The financial Internal Control Sarbanes-Oxley ('SOX').

HSBC Continental Europe prepares, on a monthly basis, a certificate of accounting reconciliations which is addressed to the HSBC Group Europe Finance Department. This certificate, which is an attestation of the full reconciliation and substantiation of Balance Sheet and Off Balance Sheet, is signed off by the CFO, based on a consolidation of certificates of accounting reconciliations transmitted by the heads of accounting and financial reporting of HSBC Continental Europe and its entities. These certifications are formalised using the Group managed accounting certification tool AssureNET.

The monthly accounting certification reporting is based on the principle according to which each account of a general balance is assigned to an owner, which is responsible for its reconciliation. The anomalies detected lead to the determination of corrective actions for the teams and business concerned. The BRCM (Business Risk & Control Managers) of the entities of HSBC Continental Europe group, internal controllers of the First Line of Defence, ensure these controls during their work programme on a risk based approach.

Balance sheet and profit and loss analytical reviews are performed by operational accounting and Business Finance/Management Reporting and Analysis teams on a monthly basis. These variance analysis are performed against business plans, budgets, trends comparisons vs prior month or year-on-year and all major variations according to thresholds are investigated and explained. These reports are sent to the HSBC Group Europe Finance, Heads of businesses and functions, as well as CFO. Financial reporting is presented monthly by the CFO to the Executive Committee of HSBC Continental Europe and quarterly to the Audit Committee, the Risk Committee and the Board of HSBC Continental Europe. The Audit Committee and the Risk Committee examine quarterly, half-yearly and annually the accounts submitted to the Board.

In order to comply with the requirements of American Law of Sarbanes-Oxley ('SOX'), enforced by the HSBC Group, HSBC Continental Europe thoroughly evaluates the controls in place while establishing the financial statements. The main processes supporting the establishment of these statements are part of a detailed documentation and proper controls, and regularly supervised within periodic review framework. These detailed analysis of operations flows till the accounts contribute to the improvement of control of the audit trail. Defects identified during this process must be corrected in the given period of time defined by the owners of remediation action plans and should be quarterly reviewed by the Finance SOX internal controller.

The Internal Audit team takes actively part in the supervision of the correct implementation of SOX process, while performing their periodic controls. The Finance SOX internal controller has access via the Audit databases of HSBC Group (ARAMIS and AID – Audit Issues Database), to the audit points raised by the different teams of audit, which permits to follow-up SOX recommendations issued by the periodic control team. In addition, the external statutory auditors perform every year the review of the control organisation on the behalf of HSBC Group and give their opinion on the SOX 404 report prepared by the management of HSBC Holding PLC.

Every quarter, the Audit Committee and Risk Committee of HSBC Continental Europe are informed of the results of these controls and the progress of main action plans in case of deficiencies. A certificate is half-yearly sent by HSBC Continental Europe to HSBC Holding, duly signed by the CEO, the CFO and the Head of Internal Audit, attesting the effectiveness of internal financial controls.

Resilience risk

Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of sustained and significant operational disruption.
Sustained and significant operational disruption means events that affect:

- the stability of the financial system;
- the viability of the bank and our industry peers; or
- the ability of our customers to access our services.

We seek to understand the effects and outcomes of these events, prioritising services which are both vulnerable to disturbance and critical to our customer service offering.

Information and cyber security risk

Overview – Risk description

The bank operates a three lines of defence model to manage its risks, the first line of defence (Cybersecurity) being responsible for the day to day operation and management of the information security control environment; the second of line of defence (Resilience Risk) being the risk stewards responsible for determining the information security risk appetite, policy development and governance and oversight of the activity of Cybersecurity; and the 3rd line of defence being the (Internal Audit) team whole role is to provide Senior management and the Board with an independent vision concerning risk management and internal control governance and processes.

The threat from cyber-attacks remains a concern for our organisation, and failure to protect our operations from internet crime or cyber-attacks may result in financial loss, business disruption and/or loss of customer services and data or other sensitive information that could undermine our reputation and our ability to attract and keep customers. Ransomware and Distributed Denial of Service ('DDoS') attacks are an increasingly dominant threat across the industry.

Ransomware are mostly distributed via spear phishing and aim to extort money from the victim or used to issue fraudulent payments within the internal bank systems.

Key Developments 2020

HSBC, through the Cybersecurity Maturity Improvement Programme, succeeded to implement key cyber controls such as:

- Secure Development & Vulnerability Remediation tools leading. Such tools are divided in three categories:
  - Static Application Security Testing, allowing to scan source code and to identify known vulnerabilities;
  - Dynamic Application Security Testing, allowing to identify potential security vulnerabilities in the web application and

architectural weaknesses;

  - Mobile Application Security Testing used to analyze and identify vulnerabilities in applications used with mobile platforms;

- Vulnerability Management. A new tool used to consolidate the view of all vulnerabilities identified during scans was implemented and is now available.
- Patch management automation processes were optimised to enhance patching capability and deploy patches within 48 hours of being released by the vendors greatly decreasing the number of critical vulnerabilities.
- Data Loss prevention ('DLP') system. OCR (Optical character recognition) capability was implemented to extract the data embedded in images attached to outgoing e-mail, enabling to use pre-existing text based DLP polices to scan for sensitive data.

Governance

HSBC is committed to maintaining and continually improving information security to meet our responsibilities to our customers and regulators and to reduce exposure to legal sanction, operational loss or reputational damage. We are committed to ensuring the confidentiality, integrity and availability of corporate, client and customer information.

HSBC has implemented a risk management framework across the lines of defence to identify, assess, report and manage risks across the organisation. Information security frameworks within HSBC follow internationally recognised best practice standards.

The governance of the Cyber and Information security risks includes the Cybersecurity & Vulnerability Steering, the Cyber Defence Forum, the HSBC Operations, Services and Technology Control Environment Management Meeting, the business risk and control oversight meetings and ultimately the Risk Management Meeting.

Key Management Process

Security incidents: In 2020, the bank was the target of limited number of DDoS attacks on our external facing websites across the Group. Additionally, the bank did not suffer any ransomware attacks. However, the bank has seen an increase of ransomware attacks on some of its third parties although these had no impact on HSBC data or availability of services. Although cyber-attacks in 2020 had a negligible effect on our customers, services or firm, due to the increasing sophistication of cyber-attacks there is the potential for future attacks to have a material adverse effect on our business, prospects, financial condition, reputation and results of operations. HSBC had not reported any significant security incidents in the past 12 months.

Training & awareness: HSBC has an ongoing security awareness programme employing various channels to engage staff including, mandatory annual online training, intranet content, posters, emails, new employee education and monthly thematic awareness power point packs. All HSBC staff has been covered by the awareness training. High risk profiles such as Board of Directors also attended a dedicated Cyber and Information Security awareness training session.

In addition to this annual mandatory on line training, every staff is encouraged to registered to a Cyber shield Programme. The programme consists of three hours training per month on Cyber to enhance their awareness. Furthermore, the Cyber monthly awareness newsletters are sent to all Business Information Risk Officers and communicated to all Global Business/Global Functions. Finally, Cyberstar for Business training focusing on phishing & ransomware risks was also deployed for all employees.Group Cloud strategy and to review data privacy, regulatory compliance, Legal and IT aspects.

A monthly Third Party Risk Forum is in place to ensure that third parties are managed in line with Group standards and regulatory expectations.

Third Party Risk

Risk Overview

Third Party Risk is the risk to which HSBC France is exposed arising from the receipt of goods and/or services from a Third Party. This risk covers both external and HSBC intra-Group third parties.

Third Party Risk Management

A robust framework is implemented to ensure an effective management of the Third Party Risk.

Each business and function across the first line of defence is in charge of monitoring the Third Parties under its perimeter to ensure that any service considered for outsourcing is adequately risk-assessed, that appropriate due diligence and controls are conducted, that the service is duly approved by the appropriate level of Management prior to the contract commencement date and that the service is adequately monitored all along the contract lifecycle. Each business and Function is in charge of monitoring adherence to the Third Party Policy through continuous control monitoring and thematic reviews performed by the CCO (Chief Control Officer) teams and to reflect the effectiveness of the control environment into the Group Risk Management tool, Helios. Within the second line of defence, the Resilience Risk is in charge of defining the strategy and the policy for an effective management of the Third Party Risk, Regulatory Compliance and Operational Risk are systematically engaged to review and approve the materiality assessment proposed by the first line of defence, Legal is engaged to review the contractual agreements where predefined contract templates cannot be used or in case of request from the provider to adjust the contract, and each Risk Steward is engaged to review the risk assessment undertaken by the first line of defence within his area of expertise.

In addition to the above, the Regulatory Compliance Risk Assurance team is in charge for conducting thematic reviews to ensure that the policy is correctly implemented across the different business lines and functions.

Governance

Any outsourcing of a material service needs to be formally approved by the Bank Risk Management Meeting prior to the contract commencement date.

A dedicated Cloud Committee is implemented to review each project to outsource on a Cloud to ensure adherence to the Group Cloud strategy and to review data privacy, regulatory compliance, Legal and IT aspects.

A monthly Third Party Risk Forum is in place to ensure that third parties are managed in line with Group standards and regulatory expectations.

Security of People and Physical Assets

Overview – Risk description

Heightened global terror threat, organised crime, political and social unrest, activism and the results of sanitary crisis place a greater emphasis on the need to ensure the physical protection of our people, premises and property through careful analysis of current and emerging security threats.

Protective Security is in charge of managing physical risks, identifying them and preventing them. The department implements physical, electronic and operational solutions to ensure the security of personnel, assets and information held by HSBC against any malicious or criminal action.

Key developments

After the previous yellow vests crisis of 2019, this year saw the increase in the terrorist threat, the Covid-19 pandemic and the long lockdown periods that required daily adaptation to ensure the necessary security staff presence, a permanent fitting of our procedures, and the continuity of the management and maintenance of security and access control systems.

The Protective Security team has also been heavily involved in the change of Head Office from l'avenue des Champs Elysées, to l'avenue Kléber, particularly for Elysées strong rooms transfers and relocating customer safes; as well as in the design and monitoring of the security systems implementation in the new headquarters on avenue Kléber.

Governance

The Protective Security team drafts procedures and circulars relating to security within the scope of HSBC Continental Europe, based on Group standards and regulatory complaints.

As 1st line of defence, Protective Security implements the required security controls in accordance with the instructions and taxonomy issued at the global level.

The Protective Security team provides advice to business lines or functions, and, because of its cross-functional role, is involved in crisis management committees.

Contingency risk

Overview

Contingency Risk covers the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of a sustained and significant disruption due to various kinds of events.

The management of this risk is performed by the first and second line of defence. Within the first line of defence, the Global businesses and functions own the risk and implement adequate controls. The Business Continuity & Incident Management function support them and ensure control monitoring. The stewardship role of this risk is discharged by the Resilience Risk function from a second line of defence perspective.

The aim is to ensure that the group's critical services, processes and functions have the resilience to maintain continuity in the face of major disruptive events. Within this very large perimeter, business continuity management covers the planning for recovery through Business Continuity plans, seeking to minimise the adverse effects of major business disruption, either globally, regionally or within country, against a range of actual or emerging risks.

Key developments 2020

In 2020, the Group has finalised the implementation of the Resilience Risk function, linked to the revision of the Non-Financial Risk simplified risk taxonomy. Resilience risk function sits in the second line of defence and is in charge to provide guidance and oversight to our businesses and global functions for: strategic change and emerging threats, systems and cyber resilience, information and data resilience, payments and processing resilience; third party and protective security risk, including Contingency Risk area.

In the 2nd half of 2020, a transformation occurred to merge the Operational Risk and Resilience Risk within one team called Operational and Resilience Risk ('ORR').

In parallel, the Business Continuity & Incident Management team now sits within the HSBC Operations, Services & Technology Chief Operating Office Office function. The Business Continuity & Incident Management team located in France is now part of the Europe Business Continuity & Incident Management team who has accountability for the oversight of all delivery aspects of Business Continuity Management and Incident Management for the countries within HSBC Europe.

Covid-19: From the beginning, it has been decided to coordinate the contingency response across Europe, based on lesson learned from the first wave in Asia where HBSC's teams had to respond first. Thus, the massive usage of work from home was anticipated and related actions timely implemented, so no country suffered from partial/full lockdown impacts. In parallel, a global Covid-19 Working Group was setup to ensure coordination across the regions, to share best practices, define procedures for accounting staff, and guidance for planning phased return to office after the event.

The global response to the Covid-19 resulted in a significant increase in business processes being undertaken remotely. This put an increased focus on resilience risks including contingency risks at service providers as part of Third-Party Management risk and raised specific attention towards data leakage for staff working from home due to lack of management oversight.

Overall it was found that the bank responded swiftly and efficiently to the situation as it could leverage the legacy usage, equipment and infrastructure of occasional remote working and succeeded in rapidly putting in place a governance to manage the business exceptions processes.

Governance and structure

Business Continuity & Incident Management has established a quarterly local committee, headed by the Chief Operating Office Continetal Europe in which are presented the status of the contingency risk controls and the management of any major incidents.

In this committee are also reviewed the issues and risk identified with the risks Businesses or Global Functions. These elements could also be presented and escalated to the HSBC Europe RCMM (Risk and Control Management Meeting).

Business Continuity & Incident Management also has an internal management and escalation structure implemented through Regional/GSC and GBM Team Meetings ('TM') as well as the Global Business Continuity & Incident Management Leadership Team Meetings ('LTM') in order to ensure that noteworthy points are escalated to the Regional/GSC/LOB and Global Business Continuity & Incident Management Heads.

Key risk management processes

The resilience risk team oversees the identification, management and control of contingency risks. The Risk Taxonomy & Control Library ('RTCL') linked to contingency risk is beng reviewed as part of the Non Financial Risk Optimisation programme.

Global policy and procedures are also being re-written to align with the changes in the organisation and the new role of Business Continuity & Incident Management.

Business Continuity & Incident Management will going forward now assess the key operational controls and attest using continuous monitoring to their effectiveness.

IT Systems risk

As part of the Non-Financial Risk Optimization programme ('NFRO'), a new Risk Taxonomy and Control Library ('RTCL') for Information, Technology and Cyber Security ('ITCS') risk has been created this year.

What does the new RTCL deliver for HSBC?

The ITCS RTCL replaces the two legacy technology-focused RTCLs: Information and Cyber Security Risk ('ICSR') library which covered malicious and misuse events and the Systems and Data Integrity ('SDI') library which covered non-malicious, accidental and poor operating events. The new library gives HSBC a significant improvement in its ability to assess technology-related risk. Aligned to current industry standards (e.g. National Institute of Standards and Technology ('NIST')), the combination of the legacy libraries has simplified the control architecture. It has also given HSBC a better clarity into the control environment, with an increased number of precisely defined controls which now include activities and processes not covered formally by either legacy library. Additionally, the introduction of a more flexible library allows HSBC to adjust to changes in technology, such as the move to Cloud adoption.

This greater definition improves transparency for Risk Owners, allowing greater scrutiny of the performance of IT controls.

Why was a new library required?

The Information and Cyber Security Risk ('ICSR') legacy library was introduced in 2017; the Systems and Data Integrity ('SDI') in 2018. While they represented an improvement in our ability to control technology-related risk, the lack of granularity made it hard for Risk Owners to fully understand the mitigations in place against their risks. This was further exacerbated by changes to technology, regulatory expectations and the threats HSBC face.

As a result, a remediation programme, the new Technology and Cyber Security ('ITCS') RTCL has been developed and launched as part of NFRO.

Governance and Control Environment Management

Europe and UK-Non Ring Fenced Bank ('NFRB') Chief Information Officer ('CIO') is accountable for the end-to-end technology services provided to the European and UK-NRFB businesses. This includes managing the regional technology investment, overseeing internally and externally sourced technology services and leading efforts to maintain an effective technology controls environment on behalf of the regional businesses.

The purpose of the Europe IT Control Environment Management Meeting ('CEMM') is to give oversight and management of the four Core Design Principles as detailed below:

- Control Environment;
- Key Control indicators and;
- Continuous Monitoring of the control environment.

The Control Environment Management Meeting ('CEMM') supports technology control owner responsibilities as described in the Operational Risk Mandatory Policy:

- oversees the effectiveness, assessment and management of the technology controls operated and owned by their Business Lines or Functions;
- oversees the results of any key control indicators ('KCIs') that call into question the effectiveness of the control environment;
- oversees the adequacy and implementation status of key and/or aged remedial actions relating to controls;
- oversees programs with a material impact on IT control environment (e.g. CS-MIP, Ever greening etc.) and assess the implications of potential delays or funding challenges;
- oversees the identification and escalation of, and appropriateness of action taken towards, material internal and external events.

Where further improvement of the control environment is not achievable:

- it takes action to reduce exposure or propose risk acceptances to the corresponding risk owners and;
- reviews and ratifies the approach to monitoring the effectiveness of key controls relied on to manage the material inherent risks.

In undertaking the above, the CEMM considers internal and external events which could impact the risk taxonomy and evaluates whether or not this merits a change in control effectiveness ratings.

CEMM membership consists of Technology Control Owners, Technology Executives within the defined perimeter, CCO Tech Leads, Second Line Risk Stewards and Third Line Internal Audit partners. External audit is also a member of this committee.

The meeting escalates all matters to the attention at Group and Regional level as well as the Global and Regional Business RMMs.

Model risk

Overview

Model Risk Management is a second line of defence function that encompasses three areas: Independent Model Validation, which provides challenge to our most material models; Model Risk Governance, which defines and manages model policy; and Risk Stewardship, who are our senior executives providing oversight, review and challenge to First Line, and guide model risk management activities to facilitate responsible development, understanding and use of models and analytics in support of strategic objectives across HSBC.

Key developments in 2020

A new Model Risk Policy was designed, and is being progressively implemented. This drives the following developments.

- The definition of 'models' was clarified, and the actual inventory of the models used by the bank is being revised.
- The Model Risk Policy is applied to each Model Use Case instead of each model, as different use cases call for different kinds and levels of scrutiny.
- A new model risk control library was designed and implemented.
- A more ambitious model life cycle was designed, with well-defined steps from Planning and Development to Validation, Approval and Implementation, and clear requirements for the monitoring of live models.
- The roles and responsibilities in the Model Risk Policy are redefined, in particular with a new role of Model Sponsor.

designed to encourage awareness of model risk within businesses.

- The required depth of scrutiny is made commensurate to the materiality of model risk, allowing to allocate resources to key models.
- The role of Model Risk Management function is now well defined, giving the Second Line the authority to stop or impose conditions to use the models.

Governance and structure

At the level of HSBC Group, Model Risk Management is headed by the Chief Model Risk Officer, and is structured as a global sub function, with regional Model Risk Management teams which support and advise each global business and global function. At the level of HSBC Continental Europe, Model Risk Management is headed by its local head, reporting to the Chief Risk Officer, and functionally to the EMEA Head of Model Risk Management. The HSBC Continental Europe head of Model Risk Management is supported by a team of independent model review and model risk overnance staff based locally, and by teams in HSBC Centres of Excellence in Poland and India.

Key risk management processes

HSBC regularly reviews its model risk management policies and procedures, which require model owning/using businesses and functions to demonstrate a set of comprehensive and effective model risk controls. Model Risk Management report on model risk to senior management on a regular basis through use of the risk map and top and emerging risks. It also reviews the effectiveness of the model risk committee structure on a regular basis to ensure appropriate understanding and ownership of model risk is embedded in the businesses and functions.

Periodic control

In accordance with French ministerial order of 3 November 2014 concerning internal control within financial institutions, and payment and investment service providers, the role of Internal Audit is to provide Senior Management and HSBC Continental Europe Audit and Risk Committees objective assurance on risk management and the internal control system implemented by the bank. Periodic controls of HSBC Continental Europe aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks, by means of independent investigations conducted centrally by staff qualified for this purpose.

As part of HSBC Group's risk management framework, Internal Audit ('INA') constitutes the Third Line of Defence, coming successively behind the businesses and functions' own First Line of Defence (Risk Owners, Control Owners and Chief Control Officers) and the Second Line of Defence teams (Operational Risk, Assurance Teams and Risk Stewards). Whilst the First and Second Lines of Defence are taken into account, INA has unlimited scope to define its own programme of work. This freedom is based on the fact that Internal Audit is responsible for providing Senior Management and the Audit Committee and Risk Committee of the bank, independent assurance on the risk exposure and level of control by management.

As such, Internal Audit pays attention, in the first instance, to the evaluation of the respect of national legislation applicable to the audited area, secondly, to the correct application of rules and procedures in force within HSBC Group and finally, that audited activities remain within the defined appetite for exposure to the associated risks.

In accordance with article 27 of the French order of 3 November 2014, the periodic control framework applies to the entire HSBC Continental Europe company, including its European branches, as well as to companies under exclusive or joint control.

Global Internal Audit ('GBL INA') is comprised of six global audit teams whose role is to provide expert coverage of HSBC Group's businesses and functions:

- Wealth and Personal Banking ('WPB') Audit;
- Commercial Banking ('CMB') and Global Banking ('GB') Audit;
- Global Markets ('GM') Audit;
- Finance and Risk Audit;
- Compliance Audit; and
- HSBC Operations, Services and Technology Audit.

GBL INA is also comprised of, four regional audit teams (United Kingdom, Asia Pacific, United States and Rest of the World) that include Country Audit Teams ('CATs'). Global Internal Audit France ('INA FRA') being one of the CATs, whose responsibility is to cover the risks within HSBC Continental Europe legal perimeter (Belgium, Czech Republic, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden), supported by local teams in Luxembourg and in Poland.

HSBC Continental Europe periodic control is therefore covered conjointly by two GBL INA entities, functionally linked and coordinated:

- INA FRA, a general audit team based in France, in the main historically auditing central functions, WPB, CMB, banking operations, IT and strategically important projects. INA FRA budgeted headcount was 30 members in 2020, mainly split between business auditors and IT auditors; and
- the global teams, specialised by business and/or function, based principally in London and in Hong Kong.

Beyond the functional and regional organisation described above, GBL INA relies on local resources in numerous countries.

CATs form one of the pillars of GBL INA's strategy. Country teams have the detailed knowledge of local regulations and environment enabling coverage to be adapted as appropriate, and functionally reporting to the global audit function strengthens their independence and ensures consistency between teams, all of whom are held to the high standards defined and regularly updated in the Audit Instruction Manual ('AIM'). That all teams share a reporting line into a global function helps collaboration and the sharing of best practices.

Periodic controls on HSBC Continental Europe in 2020 have thus been assured jointly by GBL INA directly, by INA FRA or by both actors in concert in accordance with the agreement signed on 25 March 2011 and updated on 2 August 2019 which structures the roles, responsibilities and coverage model.

There are five members of the global GBM audit team that are based in Paris. In addition, other members of global teams are also located in Paris: one person for Model Risk Audit and one person for Insurance Audit.

The scopes of local audit and global audit converge and are consolidated in the HSBC Continental Europe audit plan. In all cases, as defined in the aforementioned French ministerial order of 3 November 2014, all audits on HSBC Continental Europe are managed in coordination with the Head of INA FRA (Inspector General), who oversees their consistency and efficiency.

The Head of INA FRA reports to the Head of Rest of the World Audit and HSBC Continental Europe Audit Committee, and administratively to the HSBC Continental Europe Chief Executive Officer. Since 2017, in accordance with the Solvency II requirements, one independent Senior Audit Manager in charge of periodic control for the insurance subsidiary of HSBC Continental Europe has been appointed.

All Audit work is performed in accordance with HSBC Group's audit standards, as set out in AIM, which is updated on a regular basis. The latest version (v.4.5) has been issued on 24 June 2020.

The Auditing, Reporting and Management Information System ('ARaMIS') has been implemented in 2017 and is used for all audit activities:

- Management of the Audit Universe;
- Risk Assessment of the Audit Entities;
- Preparation of the Audit Plan;
- End-to-end Audit Process; and
- Issue Tracking and Follow-Up.

The main changes on internal methodology that have been made in 2020 aim to streamline the audit process for internal auditors. In addition, a library of service providers has been created in ARaMIS in order to better monitor coverage of outsourced activities.

In addition to regular discussions held with Global Audit, a number of other elements contribute to maintaining an independent and up to date view of key risks within HSBC Continental Europe, in particular:

- the Inspector General participates in the HSBC Continental Europe Executive Committee, Risk Management Meeting ('RMM'), Operational Risk meeting, Financial Crime Risk Management Committee ('FC RMC'), Regulatory Compliance Committee and the HSBC Continental Europe Audit Committee and those of its subsidiaries in France;
- the Senior Audit Managers participate in the risk committees of the different businesses and functions;
- regular bilateral meetings, usually quarterly, are held between the Inspector General, INA FRA senior management and the different heads of businesses and functions; and
- regular meetings, usually quarterly, are held between the Inspector General, INA FRA senior management and the external auditors.

In terms of management information, audit reports are sent to the management or person in charge of the audited entity or process, who is ultimately responsible for ensuring that Internal Audit's findings are remediated as well as any findings from the supervisory authorities or external auditors. The Chief Executive Officer, the Chief Risk Officer, the Chief Operating Officer, the Head of Compliance and the Head of Operational Risk receive a copy of all audit reports.

Audit reports relating to HSBC Continental Europe subject to an adverse rating are routinely presented and commented on to HSBC Continental Europe Audit Committee by the Inspector General.

This committee also monitors outstanding action plans resulting from very high or high risk audit issues.

Finally, the HSBC Continental Europe Internal Audit function is a member of the Inter-Audit Committee (*Comité Inter-Inspections Générales – CIIG*), which assembles eight French banks together to undertake concerted audits of vendors providing services to at least four members, as required by title V, chapter II of the French ministerial order of 3 November 2014. This approach to jointly audit common service providers is also mentioned in the European Banking Authority ('EBA') guidelines on outsourcing arrangements that have been issued in February 2019.

Human resources

Risks relating to human resources management and control system

At the end of 2020, the main HR risks with potentially significant impacts on the operation of HSBC Continental Europe were as follows:

- psycho-social risks generated in particular by Covid-19 crisis, a poor working environment, inadequate working conditions, insufficient human resources or inadequate managerial practices;
- people risk linked to lake of resources and/or skills of team;
- data security risks relating to the loss or unauthorised distribution of sensitive data relating to staff;
- legal risks relating to non-compliance with regulations;
- risks of non-payment of employer contributions and taxes on remuneration.

HSBC Continental Europe's Human Resources Department is involved in the second line of defence of the Human Resources ('HR') risk of the HSBC Continental Europe group.

For this purpose, it has mapped the transverse risks relating to HR as well as the HR function risks. This mapping is updated at least once a year and is used in support of the annual control plan.

The internal control also relies on risk indicators (HR Operational Risk and People Risk), which are commented monthly at the Risk Management Meeting.

The HR Risk Forum was set up in 2009. It meets quarterly in order to review the permanent control system of the Human Resources risk function. The members of this Committee are the main Heads of HSBC in France's Human Resources Department, the HR Operational Risk Function correspondent, the representative of Legal in charge of Employment law, the representative of Regulatory Compliance and the representative of Audit France.

The Forum especially presents the governance topics managed by HR and action plans in progress. It reviews progress on recommendations communicated to HR by Audit, or other Functions or internal control and progress on risk identified by HR departments. It performs analysis on operational loss and HR incidents.

It ensures that service providers are listed and that the risks relating to the services provided have been assessed. It reports on its work to the 'Operational Risk Meeting'.

The committees

Role of the HSBC Continental Europe People Committee

The People Committee supports the Head of HR and CEO with respect to strategies, policies and any initiatives in term of staff management according to the Group HR policy approved by the

Group People Committee ('GPC'), while taking into account local practices and regulatory constraints.

The main missions of the People Committee are:

- Follow up, on a transversal way at local level and within every Global Business and Global Function, of the implementation of Group strategies in term of staff management, for instance regarding diversity, international mobility, employees engagement score, recruitment, personal development;
- Review of possible dispensations obtained towards GPC on approaches adopted with regard to strategies implementation and/or Group main policies in term of staff management;
- Follow up of main risks in term of staff management at local level (especially cases of breaches identified through incentivizing compliance process, statistics on turnover, results of Global People Survey ('GPS') and corresponding action plans);
- Identification of local talented employee, in the context of the Inspire programme (leadership development in France), the Group Program 'Explore' and the management of the annual succession plan for the critical roles (Enterprise Critical Roles and Business Critical Roles);
- Follow up of the appropriate application of the Group Strategy in term of performance management and assessment of talented employee;
- Analysis of the evolution of organisational structures if any and corresponding decisions at local level (for example major changes to Job Catalogue, to managers scope of responsibilities);
- Review of GCB 0-3 career movements;
- Approval of minutes and review of previous People Committee actions plans.

In term of remuneration, the People Committee in its limited perimeter performs different roles both in its global and individual aspects.

Remuneration policy

It examines the main thrust of the remuneration policy put forward by the Human Resources Department for France and approves it.

It ensures that this policy fits in with the general principles of the remuneration policy set out by the HSBC Group for all of its subsidiaries, in accordance with the specific directives set by the global businesses lines.

It gives its opinion on whether this policy complies with local industry standards and the recommendations of the French bank supervisory authorities *(Autorité de Contrôle Prudentiel et de Résolution, European Central Bank, Autorité des Marchés Financiers, Fédération Bancaire Française).*

Variable remuneration arrangements

It checks that all variable remuneration arrangements in place in the bank's various businesses are in line with the general principles set out in the remuneration policy for France, Group and the global businesses lines and comply with the requirements of the supervisory authorities.

It reviews the variable remuneration packages awarded by global businesses lines to local teams (in France or outside of France) on the basis of the overall performance of each business and of the relative performance of teams, while taking risk and compliance into account.

It approves the structure of these packages, i.e. the split between cash and shares, between immediate remuneration and deferred remuneration in application of the HSBC Group rules, and local industry standards on the subject.

Individual awards

After approval of the list, it reviews and approves the consistency of remuneration of the 'Material Risk Takers' (except for the members of the People Committee in its limited perimeter) before submitting them to the appropriate HSBC Continental Europe and HSBC Group decision-making bodies.

It reviews the businesses' 20 highest earners (except the members of the People Committee in its limited perimeter) in conjunction with the HSBC Continental Europe and HSBC Group's decision-making bodies and the global businesses lines.

It reviews the list of individual breaches with respect to internal rules in term of credit risk, compliance and reputation, information security, and for specific employees, to mandates provided by Volker and SRAB rules.

The Human Resources department undertakes to submit a summary of the major focus and main changes of the remuneration policy to the first Remuneration Committee of the Board of Directors following the People Committee in its limited perimeter.

Role of the Remuneration Committee

On the basis of the remuneration policy papers prepared by the People Committee in its limited perimeter, the Remuneration Committee, chaired by an independent Director, gives his view on the bank's remuneration policies and, practices ensuring they are consistent with the HSBC Group policy and that they comply with applicable local standards. It also ensures that risk management and compliance issues are taken into account.

Its scope of responsibility covers all remuneration policies and practices in place within the company, with a more in-depth review of market professionals and Executive Directors.

Role of the Risk and Compliance functions as regards remuneration policies

The Risk and Compliance functions are, in accordance with the HSBC Group rules – Functional Instruction Manual ('FIM') and Global Standards Manual ('GSM') referred to for advice on laying down remuneration policies on introducing new variable remuneration systems and finally during the pay review process when allocating individual discretionary variable.

To strengthen the Risk and Compliance functions, certain changes were made in 2010 and significantly reinforced in 2015.

On a practical level, these functions are responsible, in their respective fields of operation, for:

- identifying and listing, throughout the year, all instances of non-adherence to compliance rules and/or rules of internal procedure and/or rules concerning risk or security information;
- instructing cases of individual breach in coordination with employee's manager and, if appropriate, with Employee Relation team;
- presenting cases to the Operational Risk Committee of the business concerned in order to assess the gravity of the risk and the level of severity of the individual breach taking into account aggravating and mitigating factors. Finally, the Committee decides the disciplinary and/or managerial actions to be implemented, any adjustment on performance rating and as a result on variable remuneration and last whether, regarding the severity of the breach, the 'malus' rule needs to be applied, cancelling some or all previously awarded and unvested shares;
- if necessary, providing feedback to management for possibly making possible changes to internal procedures and to the 'balanced scorecard' of the employees involved in the breaches.

The Human Resources Department notifies the People Committee and the Remuneration Committee of the list of decisions giving a summary of the individual and/or group behaviour that breached internal rules in terms of risk or compliance and a summary of exceptional positive contributions and behaviours aligned to our 'Global Standards'.

Insurable Risk Coverage

HSBC Continental Europe is covered through Global insurance programs placed by HSBC Holdings plc for major insurable operational risks, to protect people, infrastructures and assets.

Cover limits for assets protection are set on an 'extreme' loss assumption, aiming to mitigate major impacts on Group activities. Cover limits for infrastructure risks (notably property damage), are based on reinstatement value and vary among locations. On site insurers risks engineer visits are processed regularly.

Local policies are issued for most of Group insurance programs. HSBC Continental Europe also places regulatory required local insurance policies, such as, civil liability for licensed activities, construction works, or third party liability motor insurance.

As a principle, levels of coverage and retentions are in line with:

- insurance market conditions, business practices and regulations;
- assets values and potential impact on HSBC Continental Europe and HSBC Holdings plc balance sheets, and risk appetite.

The total amount of insurance premiums paid in 2020 represents 0.39 per cent of HSBC Continental Europe's net operating income. Major programs involve the HSBC Group reinsurance captive's participation.

Brokers and partners are chosen in accordance to their expertise and international network. Insurers are selected with a strict control of their solvency policy.

Sustainability and climate change risk

HSBC Continental Europe manages the risk that the financial services which it provides to customers may have unacceptable impacts on people or the environment. Sustainability risk can also lead to commercial risk for customers, credit risk and significant reputational risk for the bank.

HSBC's sustainability risk framework is based on robust policies and formal processes.

Assessment of HSBC Continental Europe's exposure to physical and transition risks related to climate change.

Under article 173 of French act no. 2015-992 of 17 August 2015 on energy transition, HSBC Continental Europe has been assessing since 2016, how aligned its financing portfolio is with the International Energy Agency's 2°C scenario and the Low Carbon National Strategy, on a sector basis. HSBC Continental Europe is now assessing transition risk as a top and emerging risk, it being the risk that the ability of a customer/counterparty to meet its financial obligations deteriorates as a consequence of the transition from a high-carbon to a low-carbon economy.

For more detailed information, refer to 'Managing the environmental risks related to banking activities' in the Non–financial performance statement, page 56.

Risk management of Insurance operations

The risk governance framework of HSBC *Assurances Vie* (France) focuses on several committees, whose responsibility is to manage the exposure of the business to risks according to the limits of the risk appetite. The main committees involved in the risk governance are the following:

- the Actuarial Control Committee validates the changes in assumptions, methodology and processes that result in a material impact on profit before tax or solvency position;
- the Local Insurance Model Oversight Committee validates, controls and monitors the models used by the business;
- the Asset and Liabilities Committee manages the asset-liability risk and monitors the economic and regulatory capital levels;
- the Investment Committee manages the investment risks (market, credit and liquidity risks);
- the Compliance Committee covers the topics related to the fight against financial crime and money laundering and to the regulatory compliance;
- the Insurance Risk Committee monitors the insurance risks, including the lapse rate (redemption, mortality and morbidity), the reinsurance strategy and the non-economic assumptions used in the models.

The Risk Management Meeting's responsibilities extend to all risks to which the Insurance business is exposed. The RMM uses the risk reports from the above committees and exercises governance on those committees, overseeing their structure and their running. The RMM reports to the Audit and Risk Committee of HSBC Assurances Vie (France) the significant issues and the actions being taken to manage them.

This section provides disclosures on the risks arising from insurance manufacturing operations including financial risks such as market risk, credit risk and liquidity risk, and insurance risk.

Risks in these operations are managed within the insurance entity using methodologies and processes appropriate to the insurance activities, but remain subject to oversight at HSBC Group Insurance level.

HSBC Continental Europe's bancassurance model

HSBC Continental Europe operates an integrated *bancassurance* model which provides wealth and protection insurance products principally for customers with whom the Group has a banking relationship. Insurance products are sold predominantly by Global Businesses Wealth and Personal Banking and Commercial Banking through their branches and direct channels.

The insurance contracts HSBC Continental Europe sells relate to the underlying needs of the HSBC Group's banking customers, which it can identify from its point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts. Where HSBC Continental Europe does not have the risk appetite or operational scale to be an effective manufacturer, a handful of leading external insurance companies are engaged in order to provide insurance products to the HSBC Group's customers through its banking network and direct channels.

The local subsidiary sets its own control procedures in addition to complying with guidelines issued by the HSBC Group Insurance. Country level oversight is exercised by the subsidiary's local Risk Management Meeting.

In addition, local subsidiary's ALCO monitors and reviews the matching over time of the expected cash flows of insurance assets and liabilities.

All insurance products, whether manufactured internally or by a third party, are subjected to a product approval process prior to introduction.

Financial risks of insurance operations

HSBC Continental Europe insurance businesses are exposed to a range of financial risks which can be categorised into:

- market risk: risks arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;
- credit risk: risk of financial loss following the default of third parties to meet their obligations; and
- liquidity risk: risk of not being able to make payments to policyholders as they fall due as a result of insufficient assets that can be realised as cash.

Regulatory requirements prescribe the type, quality and concentration of assets that HSBC *Assurances Vie* (France) must maintain to meet insurance liabilities. These requirements complement the HSBC Group-wide policies.

The following table analyses the assets held in HSBC Continental Europe's insurance manufacturing company by type of contract, and provides a view of the exposure to financial risk.

Financial assets held by HSBC Assurances Vie (France)

	31 Dec 2020			
	Linked contracts	Non-linked contracts	Other assets	Total
	€m	€m	€m	€m
Financial assets at fair value through profit and loss				
– debt instruments	–	2,287	1,496	3,783
– equity instruments	45	5,644	240	5,929
Total	45	7,931	1,736	9,712
Financial assets at fair value through OCI				
– debt instruments	–	9,718	2,063	11,781
– equity instruments	–	–	–	–
Total	–	9,718	2,063	11,781
– Derivatives	–	49	2	51
– Other financial assets	–	3,377	352	3,729
Total	45	21,075	4,153	25,273

Approximately 62 per cent of financial assets were invested in debt securities at 31 December 2020, and 23 per cent invested in equity securities.

In life-linked insurance, the net premium is invested in a portfolio of assets. HSBC Assurances Vie (France) manages the financial risks of this product on behalf of the policyholders by holding appropriate assets according to the type of contracts subscribed.

Market risk of insurance operations

Market risk arises when mismatches occur between product liabilities and the investment assets which back them. For example, mismatches between asset and liability yields and maturities give rise to interest rate risk.

The main features of products manufactured by the Group's insurance manufacturing company which generate market risk, and the market risk to which these features expose the company, are discussed below.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Interest rate risk arises to the extent that yields on the assets supporting guaranteed investment returns could be lower than the investment returns implied by the guarantees payable to policyholders.

The income from the insurance and investment contracts with Discretionary Participation Features ('DPF') is primarily invested in bonds; a fraction is allocated to other asset classes in order to provide customers with an enhanced potential yield. The subsidiaries holding such type of product portfolio are at risk of falling market prices when discretionary bonuses cannot be fully taken into account.

An increase in market volatility may also result in an increase in the value of the guarantee granted to the insured.

Long-term insurance and investment products typically permit the policyholder to surrender the policy at any time or to let it lapse. When the surrender value is not linked to the value realised from the sale of the associated supporting assets, the subsidiary is exposed to market risk. In particular, when customers seek to surrender their policies when asset values are falling, assets may have to be sold at a loss to fund redemptions.

For unit-linked contracts, market risk is substantially borne by the policyholder, but market risk exposure typically remains as fees earned for management are related to the market value of the linked assets.

Each insurance manufacturing subsidiary of the HSBC Group manages market risk by using some or all of the following techniques:

- for products with DPF, adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder;
- structuring asset portfolios to support liability cash flows;
- using derivatives, to a limited extent, to protect against adverse market movements or better match liability cash flows;
- periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked to savings and investment products;
- including features designed to mitigate market risk in new products; and
- selling, to the extent possible, the investments whose risk is considered unacceptable.

The French insurance manufacturing company monitors market risks exposures against mandated limits regularly and reports these quarterly to HSBC Group Insurance. Exposures are aggregated and reported on a quarterly basis to risk management forums in HSBC Group Insurance.

Standard measures for quantifying market risks are as follows:

- for interest rate risk, the sensitivities of the net present values of asset and expected liability cash flows, in total and by currency, to a one basis point parallel upward or downward shift in the discount curves used to calculate the net present values, and to a steepening of a flattening of these curves;
- for equity price risk, the total market value of equity holdings and the market value of equity holdings by region and country.

The standard measures are relatively straightforward to calculate and aggregate, but they have limitations. The most significant one is that a parallel shift in yield curves of one basis point does not capture the non-linear relationships between the values of certain assets and liabilities and interest rates. Non-linearity arises, for example, from investment guarantees and product features which enable policyholders to surrender their policies. HSBC Assurances Vie (France) bears the shortfall if the yields on investments held to support contracts with guaranteed benefits are less than the returns implied by the guaranteed benefits.

On another hand, the sensitivity of some assets to the movement of the interest rates curve may vary itself according to the level of this curve. So the impact of an important movement of the interest rates curve can't be estimated on the sole basis of the impact of a small movement of the curve. Additional calculations will be necessary.

The group recognises these limitations and augments its standard measures with stress tests which examine the effect of a range of market rate scenarios on the aggregate annual profits and total equity of the insurance manufacturing companies after taking into consideration tax and accounting treatments where material and relevant. The results of these stress tests are reported to the HSBC Group Insurance risk committees every quarter.

The following table illustrates the effect of selected interest rates, equity price and credit spread scenarios on the profits for the year and total equity of HSBC Assurances Vie (France). Where appropriate, the impact of the stress on the present value of the in-force long-term insurance business asset ('PVIF') is included in the results of the sensitivity tests. The relationship between the profit and total equity and the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities are stated before allowance for the effect of management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

Sensitivity of risk factors related to the Insurance Company of the Group

	At	
	31 Dec 2020	31 Dec 2019
	€m	€m
+ 100 basis points parallel shift in yield curves	**78**	75
- 100 basis points parallel shift in yield curves	**(175)**	(189)
10 per cent increase in equity price	**30**	24
10 per cent decrease in equity price	**(32)**	(26)
50 basis points increase in credit spread[1]	**32**	30
50 basis points decrease in credit spread[1]	**(35)**	(35)

1 *PVIF sensitivity after tax.*

The variation of the PVIF sensitivity is mainly explained by the evolution of the economic environment in 2020, namely the decrease of the interest rates. The increase of the PVIF sensitivity to Equity level is mainly due to the model evolutions, notably the increase of the Equity risk premium.

Credit risk of insurance operations

Credit risk can give rise to losses through default and can lead to volatility in income statement and balance sheet figures through movements in credit spreads.

Management of the French insurance manufacturing company is responsible for the credit risk, quality and performance of their investment portfolios. The assessment of creditworthiness of issuers and counterparties is based primarily upon the opinion of internationally recognised rating agencies and other publicly available information.

Investment credit exposures are monitored against limits by the local insurance manufacturing subsidiaries, and are aggregated and reported to HSBC Group Insurance Credit Risk and HSBC Group Credit Risk. Stress testing is performed by HSBC Group Insurance on the investment credit exposures using credit spread sensitivities and default probabilities.

A number of tools are used to manage and monitor credit risk. These include a Credit Watch Report which contains a watch list of investments with current credit concerns and is circulated fortnightly to Senior Management in HSBC Group Insurance and to the individual Country Chief Risk Officers to identity investments which may be at greater risk of future impairment.

Credit quality

The following table presents an analysis of treasury bills, other eligible bills and debt securities within the French insurance business by measures of credit quality. The five credit quality classifications are defined on page 108.

Only assets supporting liabilities under non-linked insurance, investment contracts and shareholders' funds are included in the table, as financial risk on assets supporting linked liabilities is predominantly borne by the policyholder. 91 per cent of the assets included in the table are invested in investments rated as 'Strong' Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company.

Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company

	31 Dec 2020		
	Strong	Good/Satisfactory	Total
	€m	€m	€m
Financial assets designated at fair value	**3,692**	**91**	**3,783**
– treasury and other eligible bills	—	—	—
– debt securities	3,692	91	3,783
Financial investments	**10,398**	**1,333**	**11,731**
– treasury and other eligible bills	—	—	—
– debt securities	10,398	1,333	11,731
Total	**14,090**	**1,424**	**15,514**

Liquidity risk of insurance operations

Every quarter, HSBC *Assurances Vie* is required to complete and submit liquidity risk reports to the HSBC Group Insurance for collation and review. Liquidity risk is assessed in these reports by measuring changes in expected cumulative net cash flows under a series of stress scenarios designed to determine the effect of reducing expected available liquidity and accelerating cash outflows.

This is achieved, for example, by assuming new business or renewals are lower, and surrenders or lapses are greater, than expected.

The following tables show the expected undiscounted cash flows for insurance contract liabilities. The remaining contractual maturity of investment contract liabilities is all undated as in most cases, policyholders have the option to terminate their contracts at any time.

Expected maturity of insurance contract liabilities

	Expected cash flow (undiscounted)				
	< 1 year	1-5 years	5-15 years	> 15 years	Total
31 Dec 2020	€m	€m	€m	€m	€m
Non-linked insurance[1]	1,700	6,300	8,418	6,652	23,070
Linked life insurance[1]	2	8	11	9	31
Total	**1,702**	**6,308**	**8,429**	**6,661**	**23,101**

1 *Non-linked insurance includes remaining non-life business.*

Insurance risk

Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the insurer. Insurance risk is principally measured in terms of liabilities under the contracts.

The insurance risk profile of the HSBC French life insurance manufacturing business has not changed materially during 2020 despite the increase in liabilities to policyholders on these contracts to EUR 23.10 billion (2019: EUR 23.13 billion).

A principal risk faced by the HSBC French Insurance business is that, over time, the costs of acquiring and administering a contract, of claims and of benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates.

The following tables analyse the HSBC French insurance risk exposures by type of business.

Analysis of life insurance risk – liabilities to policyholders

	At	
	31 Dec 2020	31 Dec 2019
	€m	€m
Insurance contracts with DPF[1]	—	—
Credit Life	35	36
Annuities	79	79
Term assurance and other long-term contracts	12	11
Non-Life insurance	—	—
Total non-linked insurance[2]	**126**	126
Life linked	31	48
Investments contracts with DPF[1,3]	23,069	23,132
Liabilities under insurance contracts	**23,226**	23,306

1 *Insurance contracts and investments contracts with discretionary participation features ('DPF') give policyholders the contractual right to receive, as a supplement to their guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, but whose amount or timing is contractually at the discretion of the Group. These additional benefits are contractually based on the performance of a specific pool of contracts or assets, of the profit of the company issuing the contracts.*
2 *Non-linked insurance includes remaining non-life business.*
3 *Although investment contracts with DPF are financial investments, the Group continues to account for them as insurance contracts as permitted by IFRS.*

Sensitivities to non-economic assumptions

The Group's life insurance business is accounted for using the embedded value approach which, inter alia, provides a risk and valuation framework. The sensitivity of the present value of the in-force ('PVIF') long-term asset to changes in economic and non-economic assumptions is described in Note 20.

Please note that the value approach simulation used has been reviewed by several external auditors which have confirmed that this one is compliant with market standards.

Reputational risk management

There were no material changes to the policies and practices for the management of reputational risk within HSBC Continental Europe in 2020.

Overview

Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk.

Governance and structure

The development of policies, management and mitigation of reputational risk are co-ordinated through the Reputational Risk Client Selection Committees held by business line. These committees keep the RMM apprised of areas and activities presenting significant reputational risk and, where appropriate, make recommendations to the RMM to mitigate such risks. Significant issues posing reputational risk are also reported to the Board through the Risk Committee where appropriate.

Key risk management processes

Each business has established a governance process that empowers its Reputational Risk Client Selection Committee to address reputational risk issues at the right level, escalating decisions where appropriate. The functions manage and escalate reputational risks within established operational risk frameworks.

Our policies set out our risk appetite and operational procedures for all areas of reputational risk, including financial crime prevention, regulatory compliance, conduct-related concerns, environmental impacts, human rights matters and employee relations.

Consolidated financial statements

Notes on the consolidated financial statements

Consolidated income statement

for the year ended 31 December

	Notes	2020 €m	2019 €m
Net interest income		**1,053**	1,095
– interest income		**1,861**	1,951
– interest expense		**(808)**	(856)
Net fee income	2	**858**	778
– fee income	2	**1,104**	1,093
– fee expense	2	**(246)**	(315)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	3	**72**	30
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	3	**161**	1,277
Changes in fair value of designated debt and related derivatives	3	**(4)**	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	3	**87**	153
Gains less losses from financial investments		**14**	12
Net insurance premium income	4	**1,367**	2,076
Other operating income		**84**	187
Total operating income		**3,692**	5,607
Net insurance claims and benefits paid and movement in liabilities to policyholders	4	**(1,571)**	(3,380)
Net operating income before change in expected credit losses and other credit impairment charges		**2,121**	2,227
Change in expected credit losses and other credit impairment charges		**(289)**	(128)
Net operating income		**1,832**	2,099
– employee compensation and benefits	5	**(1,245)**	(1,031)
– general and administrative expenses		**(883)**	(783)
– depreciation and impairment of property, plant and equipment and right of use assets		**(329)**	(105)
– amortisation and impairment of intangible assets and goodwill impairment	20	**(320)**	(202)
Total operating expenses		**(2,777)**	(2,121)
Operating profit/(loss)		**(945)**	(22)
Share of profit/(loss) in associates and joint ventures	17	**—**	—
Profit/(loss) before tax		**(945)**	(22)
Tax expense	7	**(80)**	(17)
Profit/(loss) for the year		**(1,025)**	(39)
Attributable to:			
– shareholders of the parent company		**(1,022)**	(39)
– non-controlling interests		**(3)**	—

Basic earnings per ordinary share	9	**(10.43)**	(0.41)
Diluted earnings per ordinary share	9	**(10.43)**	(0.41)
Dividends per ordinary share	8	**—**	—

Consolidated statement of comprehensive income

for the year ended 31 December

	Notes	2020 €m	2019 €m
Profit/(loss) for the period		**(1,025)**	(39)
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value though other comprehensive income:		**32**	18
– fair value gains/(losses)		**47**	34
– fair value gains/(losses) transferred to the income statement on disposal		**(6)**	(9)
– expected credit losses recognised in income statement		**2**	–
– income taxes		**(11)**	(7)
Cash flow hedges:		**35**	57
– fair value gains/(losses)	*14*	**30**	56
– fair value gains/(losses) reclassified to the income statement	*14*	**17**	29
– income taxes	*14*	**(12)**	(28)
Exchange differences and other		**(20)**	–
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability:		**(6)**	(16)
– before income taxes	*5*	**(4)**	(21)
– income taxes		**(2)**	5
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		**(5)**	(113)
– before income taxes	*23*	**(4)**	(167)
– income taxes		**(1)**	54
Equity instruments designated at fair value through other comprehensive income:		**(1)**	–
– fair value gains/(losses)		**(1)**	–
– income taxes		**–**	–
Other comprehensive income/(expense) for the period, net of tax		**35**	(54)
Total comprehensive income/(expense) for the period		**(990)**	(93)
Attributable to:			
– shareholders of the parent company		**(987)**	(93)
– non-controlling interests		**(3)**	–
Total comprehensive income/(expense) for the period		**(990)**	(93)

Consolidated balance sheet

at 31 December

	Notes	2020 €m	2019 €m
Assets			
Cash and balances at central banks		**29,508**	19,463
Items in the course of collection from other banks		**224**	775
Trading assets	*10*	**12,954**	14,837
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	*13*	**11,648**	11,957
Derivatives	*14*	**56,475**	45,724
Loans and advances to banks		**6,781**	6,798
Loans and advances to customers		**56,225**	56,956
Reverse repurchase agreements – non-trading		**21,522**	45,973
Financial investments	*15*	**19,167**	16,987
Asset held for sale		**3**	3
Prepayments, accrued income and other assets	*21*	**21,735**	16,820
Current tax assets		**146**	164
Interests in associates and joint ventures	*17*	**1**	1
Goodwill and intangible assets	*20*	**579**	993
Deferred tax assets	*7*	**131**	229
Total assets		**237,099**	237,680
Liabilities			
Deposits by banks		**17,204**	12,113
Customer accounts		**61,393**	57,550
Repurchase agreements – non-trading		**10,984**	20,213
Items in the course of transmission to other banks		**198**	396
Trading liabilities	*22*	**17,828**	23,262
Financial liabilities designated at fair value	*23*	**16,892**	18,953
Derivatives	*14*	**55,714**	45,115
Debt securities in issue		**3,605**	9,782
Accruals, deferred income and other liabilities	*24*	**20,117**	16,756
Current tax liabilities		**73**	66
Liabilities under insurance contracts	*4*	**23,228**	23,292
Provisions	*25*	**397**	160
Deferred tax liabilities	*7*	**131**	175
Subordinated liabilities	*26*	**1,876**	1,376
Total liabilities		**229,640**	229,209
Equity			
Called up share capital	*29*	**491**	491
Share premium account	*29*	**2,137**	2,137
Other equity instruments	*8*	**750**	750
Other reserves		**1,688**	1,641
Retained earnings		**2,368**	3,424
Total shareholders’ equity		**7,434**	8,443
Non-controlling interests		**25**	28
Total equity		**7,459**	8,471
Total liabilities and equity		**237,099**	237,680

Consolidated statement of cash flows

for the year ended 31 December

	Notes	2020 €m	2019 €m
Profit/(loss) before tax		**(945)**	(22)
Adjustments for non-cash items:		**1,699**	365
– depreciation, amortisation and impairment of property plant and equipment, right of use and intangibles[1]		**649**	307
– net gain from investing activities		**(15)**	(33)
– change in expected credit losses gross of recoveries and other credit impairment charges		**287**	132
– provisions including pensions		**254**	79
– share-based payment expense	5	**13**	15
– other non-cash items included in profit before tax		**128**	(138)
– elimination of exchange differences		**383**	3
Changes in operating assets and liabilities		**(1,423)**	18,260
– change in net trading securities and derivatives		**(3,676)**	2,166
– change in loans and advances to banks and customers		**1,112**	2,869
– change in reverse repurchase agreements – non-trading		**13,299**	(7,886)
– change in financial assets designated at fair value and otherwise mandatorily measured at fair value		**309**	(1,733)
– change in other assets		**(7,279)**	(3,447)
– change in deposits by banks and customer accounts		**8,934**	4,036
– change in repurchase agreements – non-trading		**(9,229)**	1,292
– change in debt securities in issue		**(6,177)**	7,310
– change in financial liabilities designated at fair value		**(2,065)**	4,201
– change in other liabilities		**3,420**	9,513
– tax paid		**(71)**	(61)
Net cash from operating activities		**(669)**	18,603
Purchase of financial investments		**(5,786)**	(6,425)
Proceeds from the sale and maturity of financial investments		**4,202**	4,103
Net cash flows from the purchase and sale of property plant and equipment		**(47)**	(58)
Net investment in intangible assets		**(38)**	(141)
Net cash flow on disposal/acquisition of subsidiaries, business, associates and joint ventures		**—**	(10)
Net cash from investing activities		**(1,669)**	(2,531)
Issue of ordinary share capital and other equity instruments	29	**—**	2,037
Subordinated loan capital issued	26	**500**	500
Dividends paid to shareholders of the parent company	8	**(30)**	(21)
Dividends paid to non-controlling interests		**—**	(1)
Net cash from financing activities		**470**	2,515
Net increase/(decrease) in cash and cash equivalents		**(1,868)**	18,587
Cash and cash equivalents at beginning of the period		**49,616**	31,031
Exchange differences in respect of cash and cash equivalents		**(181)**	(2)
Cash and cash equivalents at 31 Dec		**47,567**	49,616
Cash and cash equivalents comprise of:[2]			
– cash and balances at central banks		**29,508**	19,463
– items in the course of collection from other banks		**224**	775
– loans and advances to banks of one month or less		**3,711**	3,085
– reverse repurchase agreement with banks of one month or less		**9,238**	20,390
– treasury bills, other bills and certificates of deposit less than three months		**299**	335
– net settlement accounts and cash collateral		**4,785**	5,964
– less: items in the course of transmission to other banks		**(198)**	(396)
Cash and cash equivalents at 31 Dec		**47,567**	49,616

1 *Included are the impact of EUR 500 million Non-Financial Assets impairment and EUR 4 million Goodwill impairment in 2020 (2019 : EUR 9 million Non-Financial Assets impairment and EUR 169 million Goodwill impairment).*
2 *At 31 December 2020 EUR 5.5 billion (2019: EUR 5.4 billion) was not available for use by HSBC Continental Europe and is related to mandatory deposits at central banks.*

Interest received was EUR 2,117 million (2019: EUR 2,281 million), interest paid was EUR 1,354 million (2019: EUR 1,347 million) and dividends received EUR 2 million (2019: EUR 9 million).

Operating activities are representative of HSBC Continental Europe's product-generating activities.

Investment activities represent cash flows for the acquisition and disposal of interests in consolidated and non-consolidated businesses, and property, plant and equipment and intangible assets.

Financing activities result from changes in financial structure transactions relating to equity and long-term borrowings.

Consolidated statement of changes in equity

for the year ended 31 December

	Called up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at Fair Value through OCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger reserve and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2020	**2,628**	**750**	**3,424**	**47**	**34**	**(27)**	**1,587**	**8,443**	**28**	**8,471**
Profit/(loss) for the period	–	–	(1,022)	–	–	–	–	(1,022)	(3)	(1,025)
Other comprehensive income/(expense) (net of tax)	–	–	(11)	31	35	(20)	–	35	–	35
– debt instruments at fair value through other comprehensive income	–	–	–	32	–	–	–	32	–	32
– equity instruments designated at fair value through other comprehensive income	–	–	–	(1)	–	–	–	(1)	–	(1)
– cash flow hedges	–	–	–	–	35	–	–	35	–	35
– re-measurement of defined benefit asset/ liability	–	–	(6)	–	–	–	–	(6)	–	(6)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	–	–	(5)	–	–	–	–	(5)	–	(5)
– exchange differences	–	–	–	–	–	(20)	–	(20)	–	(20)
Total comprehensive income/(expense) for the period	–	–	(1,033)	31	35	(20)	–	(987)	(3)	(990)
– capital securities issued during the period	–	–	–	–	–	–	–	–	–	–
– dividends to shareholders[2]	–	–	(30)	–	–	–	–	(30)	–	(30)
– net impact of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	–
– change in business combinations and other movements	–	–	7	–	–	–	1	8	–	8
Total Other	–	–	(23)	–	–	–	1	(22)	–	(22)
At 31 Dec 2020	**2,628**	**750**	**2,368**	**78**	**69**	**(47)**	**1,588**	**7,434**	**25**	**7,459**

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

2 *Dividends corresponds to coupon payment on other equity instrument (AT1 capital) amounting to EUR 30 million.*

Consolidated statement of changes in equity (continued)

for the year ended 31 December

	Called up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at Fair Value through OCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Merger reserve and other reserves	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2019	842	500	3,647	29	(23)	(27)	1,587	6,555	29	6,584
Profit/(loss) for the period			(39)					(39)	—	(39)
Other comprehensive income/(expense) (net of tax)	—	—	(129)	18	57	—	—	(54)	—	(54)
– debt instruments at fair value through other comprehensive income	—	—	—	18	—	—	—	18	—	18
– equity instruments designated at fair value through other comprehensive income			—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	57	—	—	57	—	57
– 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]	—	—	(113)	—	—	—	—	(113)	—	(113)
– exchange differences and other	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	(168)	18	57	—	—	(93)	—	(93)
– capital securities issued	1,786	250	—	—	—	—	—	2,036	—	2,036
– dividends to shareholders[2]	—	—	(21)	—	—	—	—	(21)	(1)	(22)
– net impact of equity-settled share-based payments	—	—	6	—	—	—	—	6	—	6
– change in business combination and other movements	—	—	(40)	—	—	—	—	(40)	—	(40)
Total Other	1,786	250	(55)	—	—	—	—	1,981	(1)	1,980
At 31 Dec 2019	2,628	750	3,424	47	34	(27)	1,587	8,443	28	8,471

1 *At 31 December 2019, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of EUR (57) million.*

2 *Dividends corresponds to coupon payment on other equity instrument (AT1 capital) amounting to EUR 21 million.*

1 Basis of preparation and significant accounting policies

The consolidated financial statements of HSBC Continental Europe are available upon request from the HSBC Continental Europe registered office at 38 Avenue Kléber – 75116 Paris or on the websites www.hsbc.com and www.hsbc.fr.

These consolidated financial statements were approved by the Board of Directors on 23 February 2021.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC Continental Europe have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

Standards adopted during the year ended 31 December 2020

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 issued in August 2020 represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform.

Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. HSBC has adopted the amendments from 1 January 2020 and has made the additional disclosures as required by the amendments. Further information is included in Note 14.

Other changes

In addition, HSBC has adopted a number of interpretations and amendments to standards, which have had an insignificant effect on the consolidated financial statements of HSBC Continental Europe.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2021 that are applicable to HSBC CE . However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023. HSBC Continental Europe expects they will have an insignificant effect, when adopted, on the consolidated financial statements.

New IFRS

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The Group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Therefore, the likely numerical impact of its implementation remains uncertain. However, we have the following expectations as to the impact compared with the group's current accounting policy for insurance contracts, which is set out in policy 1.2(j) below:

- Under IFRS 17, there will be no PVIF asset recognised; rather the estimated future profit will be included in the measurement of the Insurance contract liability as the contractual service margin ('CSM') and gradually recognised in revenue as services are provided over the duration of the insurance contract. The PVIF asset will be eliminated to equity on transition, together with other adjustments to assets and liabilities to reflect IFRS 17 measurement requirements and any consequential amendments to financial assets in the scope of IFRS 9;
- IFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Depending on the measurement model, changes in market conditions for certain products (measured under the General Measurement Approach) are immediately recognised in profit or loss, whilst for other products (measured under the Variable Fee Approach) they will be included in the measurement of CSM;
- In accordance with IFRS 17, directly attributable costs will be included in the results of insurance services as profit is recognised over the duration of insurance contracts and costs that are not directly attributable remain in operating expenses. This will result in a reduction in operating expenses compared to the current accounting policy.

(c) Foreign currencies

The functional currency of HSBC Continental Europe is euros which is also the presentational currency of HSBC Continental Europe's consolidated financial statements and, the presentational currency of the consolidated financial statements of the bank and the Group is sterling.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not € are translated into the HSBC Continental Europe's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into € at the average rates of exchange for the reporting period. Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts 2020* as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments and insurance contracts are included in the 'Risk' section on pages 80 to 163;
- the 'Own funds' disclosure included in the 'Capital and leverage management' section on page 131.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted, as the 'critical accounting estimates and judgements' in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the group's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Segmental analysis

HSBC Continental Europe chief operating decision maker is the Chief Executive, supported by the Chief Executive deputies and the Executive Committee. Operating segments are reported in a manner consistent with the internal reporting.

Measurement of segmental assets, liabilities, income and expenses is in accordance with HSBC Continental Europe's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted on arm's length. Shared costs are included in segments on the basis of the actual recharges made.

(g) Going concern

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

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The bank's investments in subsidiaries are stated at cost less impairment losses.

Critical accounting estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	• The future cash flows of each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to the investment. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control.

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. HSBC Continental Europe's CGUs are the global businesses within principal operating entities. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU.

The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Critical accounting estimates and judgements

The review of goodwill and non-financial assets (see Note 1.2(n)) for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	• The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to individual CGUs. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. • Key assumptions used in estimating goodwill impairment and non-financial assets are described in Note 20.

HSBC Continental Europe sponsored structured entities

HSBC Continental Europe is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. HSBC Continental Europe is generally not considered a sponsor if the only involvement with the entity is merely administrative.

Interests in associates and joint arrangements

Joint arrangements are investments in which HSBC Continental Europe, together with one or more parties, has joint control. Depending on HSBC Continental Europe's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. HSBC Continental Europe classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

HSBC Continental Europe recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of HSBC Continental Europe based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisitions of interests in joint ventures and associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by HSBC Continental Europe for funding purposes that are designated under the fair value option and derivatives managed in conjunction with those debt instruments are included in interest expense.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

HSBC Continental Europe generates fee income from services provided at a fixed price over time, such as account service and card fees, or when HSBC Continental Europe delivers a specific transaction at the point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and HSBC Continental Europe performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

HSBC Continental Europe acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades HSBC Continental Europe acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

HSBC Continental Europe recognises fees earned on transaction-based arrangements at a point in time when we have fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where HSBC Continental Europe offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'. This includes interest income, interest expense and dividend income in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above which can be separately identifiable from other trading derivatives.
- 'Changes in fair value of designated debt instruments and related derivatives': Interest paid on the debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces an accounting mismatch.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'. This includes interest on instruments which fail the SPPI test. See (d) below.

The accounting policies for insurance premium income are disclosed in Note 4.

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, HSBC Continental Europe recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC Continental Europe manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 11, 'Fair values of financial instruments carried at fair value'.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements	Estimates
• An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5 per cent of the instrument's valuation is driven by unobservable inputs. • Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).	• Details on HSBC Continental Europe's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonable possible alternative assumptions in determining their fair value are set out in Note 11.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. HSBC Continental Europe accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

HSBC Continental Europe may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When HSBC Continental Europe intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

(e) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when HSBC enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Equity securities measured at fair value with fair value movements presented in other comprehensive income ('OCI')

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when HSBC Continental Europe enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when HSBC Continental Europe enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by HSBC Continental Europe are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial assets and financial liabilities under unit-linked and non-linked investment contracts: A contract under which HSBC does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, at least some of the assets would otherwise be measured at either fair value through other comprehensive income or amortised cost. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.
- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(h) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss, with changes in fair value generally recorded in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis. Where the derivatives are managed with debt securities issued by HSBC Continental Europe that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. HSBC Continental Europe uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net trading income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(i) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

HSBC Continental Europe determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

For doubtful exposures, interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit-impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be purchased or originated credit-impaired ('POCI') and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit-impaired

In most circumstances, loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. In certain circumstances, modifications to loans are made that are not considered to be renegotiation or commercial restructuring. Such loans are not derecognised and will continue to be subject to the impairment policy.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30 bps
Greater than 3.3 and not impaired	2x

For CRRs greater than 3.3 which are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch

Further information about the 23-grade scale used for CRR can be found on page 108.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk – (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, HSBC Continental Europe calculates ECL using three main components, a probability of default, a loss given default ('LGD") and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

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

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

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC Continental Europe is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC Continental Europe exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC Continental Europe remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, 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.

Forward-looking economic inputs

HSBC applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 116.

Critical accounting estimates and judgements

The calculation of the group's ECL under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

JUDGEMENTS

- Definition of what is considered to be a significant increase in credit risk.
- Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.

ESTIMATES

- The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' on pages 116 to 118 set out the assumptions used in determining ECL. An indication of the sensitivity is available in the HSBC Bank plc Annual Report and account to the application of different weightings being applied to different economic assumptions

(j) Insurance contracts

A contract is classified as an insurance contract where the entity accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the group issues investment contracts with discretionary participation features ('DPF') which are also accounted for as insurance contracts as required by IFRS 4 'Insurance Contracts'.

Insurance contracts are accounted for as follows:

Net insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

Future profit participation on insurance contracts with discretionary participation features

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect the actual performance of the investment portfolio to date and management's expectation of the future performance of the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. The benefits to policyholders may be determined by the contractual terms, regulation or past distribution policy.

Investment contracts with DPF

While investment contracts with DPF are financial instruments, they continue to be treated as insurance contracts as required by IFRS 4. The group therefore recognises the premiums for these contracts as revenue and recognises as an expense the resulting increase in the carrying amount of the liability.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable. Movements in the liabilities arising from realised gains and losses on relevant assets are recognised in the income statement.

Present value of in-force long-term insurance business

The group recognises the value placed on insurance contracts, and investment contracts with DPF, that are classified as long-term and in-force at the balance sheet date, as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. The present value of in-force long-term insurance business ('PVIF') is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

(k) Employee compensation and benefits

Share-based payments

Share-based payments are payments based on shares issued by HSBC Holdings plc.

HSBC Continental Europe grants bonus share plans to some employees for services rendered.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Main Post-employment benefit plans

HSBC Continental Europe operates a number of pension schemes including defined benefit and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Employee share ownership plan

When a capital increase is opened to employees in the framework of the Employee share ownership plan, the advantage granted through the discount on the market value of the security is a staff expense for the period.

(l) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Critical accounting estimates and judgements

JUDGEMENTS

- Assessing 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.

(m) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below:

JUDGEMENTS

- Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations.
- Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.

ESTIMATES

- Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

The bank has issued financial guarantees and similar contracts to other group entities. The Group elects to account for certain guarantees as insurance contracts in the bank's financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

(n) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets such as property, plant and equipment, intangible assets (excluding goodwill) and right-of-use ('ROU') assets are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the global business within the principal operating entities. Indicators of impairment can be based on external and/or internal sources of information, for example significant changes with an adverse effect on the entity during the period, or in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal ('FVLCOD') or the value in use ('VIU'). The carrying amount of a CGU is its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs.

The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs (see Note 20). When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not recognised with respect to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a reversal in the indicators of impairment and/or there has been a change in the recoverable amount assessed. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods..

The review of goodwill and other non-financial assets for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as described in the Critical accounting estimates and judgements in Note 1.2(a).

Recoverable amounts for individual assets

Recoverable amount is the higher of fair value less cost of disposal ('FVLCOD') or value in use ('VIU'). Some non-financial assets have their own recoverable amount in the form of FVLCOD, for example external valuation of market price for property. ROU assets that are legally permissible to be sub-leased will have FVLCOD calculated as the present value of potential sub-leasing income, less any estimated penalty/cost/new liability and ROU assets that can be novated or cancelled will have their FVLCOD calculated as the amount of lease liability extinguished less any estimated penalty/cost/new liability, provided that the lease liability approximates the fair value.

It is not always necessary to determine both the FVLCOD and VIU for impairment purposes. If the FVLCOD is higher than the carrying amount of the non-financial asset, no impairment is recognised. However, if the FVLCOD of the individual asset is not higher than the respective carrying amount, it is necessary to consider the VIU in order to assess whether impairment should be recognised.

Non-financial assets are generally not used in isolation to generate cash flows that are independent from other assets. Therefore, the VIU of the non-financial assets depends on the VIU of the CGUs in which they are recorded. In addition, some non-financial assets do not have their own FVLCOD, such as software (including software under development). Therefore, they rely solely on the recoverable amount of the CGU where they are recorded.

Capitalisation of new non-financial assets when the CGU is impaired

For tangible and intangible assets that do not have their own recoverable amount, the future economic benefits will flow to the entity only through usage via the CGU. When the CGU is impaired, newly acquired tangible and intangible assets are recognised only if these assets have a recoverable amount at the individual asset level. These assets will be recognised and impaired down to their respective recoverable amount subsequent to initial recognition. When the CGU is no longer impaired on a future date, previously recognised impairment could be reversed. When the CGU is impaired, new acquisition of tangible and intangible assets without recoverable amount at the individual asset level will be expensed immediately.

(o) Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The benefit of a government loan at a below market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan recognised and the proceeds received. When identifying the costs for which the benefit of the loan is intended to compensate, the conditions and obligations that have been, or must be, met are considered. Government grants are recognised when there is reasonable assurance that the conditions attached with them will be complied with and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognise as expense the related costs for which the grants are intended to compensate.

Critical accounting estimates and judgements

JUDGEMENTS

- Determining whether there is reasonable assurance that the conditions attached with government grants will be complied with and that the grants will be received.

1.3 Significant events during the year

Change of name and new headquarters

On 1st December 2020, HSBC France has changed its name to become HSBC Continental Europe. The new name better reflects the purpose and nature of its activities, namely an integrated Continental European bank connecting our customers to HSBC's global network, and providing access to Continental Europe for HSBC's customers around the world. The new headquarters for HSBC Continental Europe is located at 38 avenue Kléber, 75116 Paris, France.

Change in reportable segments

Effective from second quarter of 2020, the HSBC Group made the following realignments within its internal reporting :

- Simplification of the matrix organisational structure by merging 'Private Banking' and 'Retail Banking and Wealth Management' global business lines to form 'Wealth and Personal Banking'.
- Reallocation of Balance Sheet Management from Corporate Centre to the global businesses.

Impairment and write-off of intangible and tangible assets

During 2020, the HSBC Group considered the pervasive macroeconomic deterioration caused by the outbreak of Covid-19, along with the impact on forecast profitability, to be an indicator of impairment. As a result, an impairment test was performed which led to the recognition of EUR 500 million in non-financial asset impairments, of which capitalised software impairments and write-offs of EUR 294 million and EUR 206 million in tangible asset impairments, primarily fixtures and fittings and right-of-use assets. This impairment reflected recent losses and deterioration in the future forecasts, substantially relating to prior periods. Refer to 1.2 (n) for related accounting policies and judgments, Note 20 Goodwill and intangible assets and Note 21 Prepayments, accrued income and other assets.

Recognition of restructuring costs

In line with the Group's Business Update announced in February 2020, HSBC Continental Europe has initiated its own transformation programme during the year.

In July, a social plan *('Plan de Sauvegarde pour l'Emploi')* was presented for the GBM business in France. Its objective is to preserve the bank's future competitiveness and to focus on our strategic positioning while reducing the size of the GBM business in France.

In October, a plan was presented to the European Work Council (EWC) focused on the European Economic Area ('EEA') branches of HSBC Continental Europe. The plan foresees increasing client-focused activities within the branches and to deliver a more efficient operating and booking model, better leveraging HSBC Continental Europe's wider operating infrastructure and balance sheet. Implementation of the plan is undertaken in accordance with the respective legal and social frameworks in each of the countries.

In December, a social plan for collective voluntary departure *('Rupture Conventionelle Collective')* was presented focused on the CMB business and selected Global Functions and HSBC Operations, Services and Technology. This initiative will enable us to better serve commercial banking clients while focusing on clients valuing our international network. It will also improve operational efficiency and simplify processes.

During 2020, HSBC Continental Europe recognised EUR 258 million in restructuring costs relating to these plans, primarily termination benefits.

Derecognition of Deferred Tax Assets ('DTAs')

Considering the recent losses incurred and the wider context of uncertainty, it was judged that the net deferred tax asset ('DTA') should be written off and no further net DTA should be recognised. Recognition will be reassessed at each balance sheet date. Refer to Note 7 Tax.

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

In June 2020, HSBC Continental Europe repaid EUR 2.6 billion in TLTRO II funding and issued EUR 10.6 billion in TLTRO III funding. Borrowing rates for TLTRO III are at below-market rates as they are issued at, or below, the deposit facility rate. Borrowing rates in these operations can be as low as 50 basis points below the average interest rate on the deposit facility rate over the period 24 June 2020 to 23 June 2022, capped at -1 per cent, and as low as the interest rate on the deposit facility during the rest of the life of the respective TLTRO III, if the entity's benchmark lending is maintained at a prescribed level over specific periods. During 2020, HSBC Continental Europe judged there to be reasonable assurance that the conditions attached to TLTRO III will be complied with and that the below-market rate foreseen in the first twelve months will be received. As such, TLTRO funding has been accounted for as a government grant. The below-market rate attached to lending to support the real economy is recognized in net interest income during the period. Refer to Note 1.2 (c) and (o) for related accounting policies and judgments.

Granting of Pret Garanti par l'Etat ('PGE') loans

In March 2020, the French authorities introduced a state guarantee scheme *(Pret Garanti par l'Etat)* under which the French State will guarantee up to EUR 300 billion of new loans granted to French businesses to help mitigate the economic impact of the Covid-19 pandemic. During 2020, loans granted under this government support scheme in France amounted to EUR 4.4 billion.

Repayments and new issuances

In May 2020, HSBC Continental Europe increased its Tier 2 capital for EUR 500 million by issuing a subordinated instrument with a maturity of 10 years subscribed by HSBC Bank plc, recognised as subordinated liabilities. In December 2020, HSBC Continental Europe repaid three unsecured loans granted by HSBC Bank plc for a total notional amount of EUR 2.3 billion, recognised as deposits by banks and issued five series of senior non preferred notes with maturities ranging from 3 to 7 years for a total notional amount of EUR 2.3 billion subscribed by HSBC Bank plc, recognised as debt securities in issue.

2 Net fee income

Net fee income by global business

	At 31 Dec 2020				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	€m	€m	€m	€m	€m
Account services	34	78	27	—	139
Funds under management	154	—	24	—	178
Cards	19	14	1	—	34
Credit facilities	—	52	84	—	136
Broking income	9	—	1	—	10
Unit trusts	4	—	—	—	4
Imports/exports	—	9	6	—	15
Remittances	6	17	23	—	46
Underwriting	—	—	88	—	88
Global custody	6	—	28	—	34
Insurance agency commission	18	1	—	—	19
Other[1]	194	61	266	(120)	401
Fee income	444	232	548	(120)	1,104
Less: fee expense	(185)	(4)	(177)	120	(246)
Net fee income	259	228	371	—	858

1 *The line 'Other' includes primarily inter-company fees.*

Net fee income by global business (continued)

	At 31 Dec 2019[2]				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	€m	€m	€m	€m	€m
Account services	36	82	18	—	136
Funds under management	165	—	19	—	184
Cards	21	19	5	—	45
Credit facilities	—	62	89	—	151
Broking income	7	—	—	—	7
Unit trusts	6	—	—	—	6
Imports/exports	—	9	7	—	16
Remittances	6	18	30	—	54
Underwriting	—	1	97	—	98
Global custody	6	—	25	—	31
Insurance agency commission	21	1	—	—	22
Other[1]	204	48	206	(115)	343
Fee income	472	240	496	(115)	1,093
Less: fee expense	(196)	(10)	(218)	109	(315)
Net fee income	276	230	278	(6)	778

1 *The line 'Other' includes mainly analytical reallocations amongst business lines, HSBC inter-company fees, some inter-bank fees and various other fees.*
2 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*

Net fee income includes EUR 495 million of fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2019: EUR 533 million), EUR 121 million of fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2019: EUR 168 million), EUR 215 million of fees earned on trust and other fiduciary activities (2019: EUR 215 million).

3 Net income/(expense) from financial instruments measured at fair value through profit or loss

	2020	2019
	€m	€m
Net income/(expense) arising on:		
Net trading activities	**283**	554
Other instruments designated and mandatorily measured at fair value and related derivatives	**(211)**	(524)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	**72**	30
Financial assets held to meet liabilities under insurance and investment contracts	**161**	1,280
Liabilities to customers under investment contracts	**—**	(3)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**161**	1,277
Derivatives managed in conjunction with HSBC Continental Europe's issued debt securities	**59**	47
Other changes in fair value	**(63)**	(48)
Changes in fair value of designated debt and related derivatives	**(4)**	(1)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**87**	153
Year ended 31 Dec	**316**	1,459

4 Insurance business

Through its insurance subsidiary, HSBC Continental Europe issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which HSBC Continental Europe accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4.

Insurance contracts are accounted for as follows:

Insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance premium income

	Non-linked insurance €m	Linked-life insurance €m	Investment contracts with DPF €m	Total €m
Gross insurance premium income	**58**	**—**	**1,312**	**1,370**
Reinsurers' share of gross insurance premium income	**(3)**	**—**	**—**	**(3)**
Year ended 31 Dec 2020	**55**	**—**	**1,312**	**1,367**
Gross insurance premium income	59	—	2,020	2,079
Reinsurers' share of gross insurance premium income	(3)	—	—	(3)
Year ended 31 Dec 2019	56	—	2,020	2,076

Insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Reinsurance recoveries are accounted for in the same period as the related claim.

Future profit participation on insurance contracts with discretionary participation features

In accordance with the Code of assurances, a discretionary participation is allocated to non-linked investments contract based on actual net financial income.

Assets backing non-linked investments contracts are valuated at their fair value. The fair value variation generated during the year is allocated in deferred discretionary participation. At least 85 per cent is allocated to policyholders; the remaining amount is accounted for as deferred participation and should be distributed to customers within eight years.

Net insurance claims and benefits paid and movement in liabilities to policyholders

	Non-linked insurance €m	Linked-life insurance €m	Investment contracts with DPF €m	Total €m
Gross claims and benefits paid incurred and movement in liabilities	**15**	**1**	**1,555**	**1,571**
– claims, benefits and surrenders paid	**15**	**2**	**1,748**	**1,766**
– movement in liabilities	**—**	**(1)**	**(193)**	**(194)**
Reinsurers' share of claims incurred and benefits paid and movement in liabilities	**—**	**—**	**—**	**—**
– claims, benefits and surrenders paid	**—**	**—**	**—**	**—**
– movement in liabilities	**—**	**—**	**—**	**—**
Year ended 31 Dec 2020	**15**	**1**	**1,555**	**1,571**
Gross claims and benefits paid incurred and movement in liabilities	25	—	3,356	3,381
– claims, benefits and surrenders paid	19	2	1,698	1,719
– movement in liabilities	6	(2)	1,658	1,662
Reinsurers' share of claims incurred and benefits paid and movement in liabilities	(1)	—	—	(1)
– claims, benefits and surrenders paid	—	—	—	—
– movement in liabilities	(1)	—	—	(1)
Year ended 31 Dec 2019	24	—	3,356	3,380

Liabilities under insurance contracts

	Non-linked insurance €m	Linked-life insurance €m	Investment contracts with DPF €m	Total €m
Gross liabilities under insurance contracts at 1 Jan 2020	**126**	**34**	**23,132**	**23,292**
Claims and benefits paid	**(15)**	**(2)**	**(1,748)**	**(1,765)**
Increase in liabilities to policyholders	**15**	**1**	**1,555**	**1,571**
Exchange differences and other movements[1]	**—**	**(1)**	**131**	**130**
Gross liabilities under insurance contracts at 31 Dec 2020	**126**	**32**	**23,070**	**23,228**
Reinsurers' share of liabilities under insurance contracts	**(2)**	**—**	**—**	**(2)**
Net liabilities under insurance contracts at 31 Dec 2020	**124**	**32**	**23,070**	**23,226**
Gross liabilities under insurance contracts at 1 Jan 2019	121	33	21,181	21,335
Claims and benefits paid	(19)	(2)	(1,698)	(1,719)
Increase in liabilities to policyholders	25	—	3,356	3,381
Exchange differences and other movements[1]	(1)	3	293	295
Gross liabilities under insurance contracts at 31 Dec 2019	126	34	23,132	23,292
Reinsurers' share of liabilities under insurance contracts	(2)	—	—	(2)
Net liabilities under insurance contracts at 31 Dec 2019	124	34	23,132	23,290

1 *'Exchange differences and other movements' includes movements in liabilities arising from net unrealised investment gains recognised in other comprehensive income.*

The key factors contributing to the movement in liabilities to policyholders included death claims, surrenders, lapses, liabilities to policyholders created at the initial inception of the policies, the declaration of bonuses and other amounts attributable to policyholders.

5 Employee compensation and benefits

Employee compensation and average number of employees

	2020	2019
	€m	€m
Wages and salaries[1]	961	718
Social security costs	286	290
Post-employment benefits[2, 3]	(2)	23
Year ended 31 Dec	**1,245**	1,031

1 *Includes restructuring provision of EUR 278 million in 2020 (refer Note 1.3).*
2 *Includes reversal of pension indemnity provision of EUR 21 million in 2020 related to restructuring plans.*
3 *This amount includes re-invoicing of the staff costs to and from the HSBC Group.*

Average number of persons employed by HSBC Continental Europe during the year by global business

	2020	2019
Wealth and Personal Banking[1]	4,155	4,195
Commercial Banking	1,652	1,704
Global Banking and Markets	1,145	1,020
Corporate Centre	14	14
Support functions and others[2]	2,651	2,919
Year ended 31 Dec[3]	**9,617**	9,852

1 *A change in reportable segments was made during 2020. Comparative data have been re-presented accordingly.*
2 *Including pre-retirement (CFCS) and expatriates.*
3 *Permanent contracts (CDI) and fixed terms contracts (CDD) within HSBC Continental Europe (including the European branches) and its subsidiaries HSBC Global Asset Management (France) and HSBC Assurances Vie (France).*

Share-based payments

Share Group policy

In 2005, the HSBC Group significantly revised its employee share option and share policy.

The rules of share option and share plans were approved by its *Annual General Meeting* held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule), which complies with the legal and tax regulations applicable in France. This regulation was revised in 2011 firstly to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the 'Group Performance Share Plan', for the HSBC Group's Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subjected to a review, to comply with local social and tax rules. Since 2006, the general policy of the HSBC Group is to award shares instead of share options (except in the case of a country specific legal and tax regulation).

The shares can be:

- 'Group Performance Shares' subject to performance conditions;
- 'Restricted Shares' without performance conditions.

Movement on 'Group Performance Shares'

Movement on 'Group Performance Shares'

	Number (000s)
Outstanding at 1 Jan 2020	**30**
Granted during the year	—
Exercised during the year	(13)
Expired during the year	—
Forfeited during the year	—
Outstanding at 31 Dec 2020	**17**
– of which: exercisable	—
Weighted average remaining contractual life (years)	0.04
Outstanding at 1 Jan 2019	75
Granted during the year	—
Exercised during the year	(45)
Expired during the year	—
Forfeited during the year	—
Outstanding at 31 Dec 2019	30
– of which: exercisable	—
Weighted average remaining contractual life (years)	0.3

This category of shares is available, after a vesting period of five years, at the retirement date.

From 2016, these Group Performance Shares are not available anymore.

'Restricted Shares'

For French employees, shares awarded are 'French qualified shares'.

These shares vest definitively after a two-year or three-year period according to the rules of the Plan. Shares granted from 2011 will vest 66 per cent after two years and 34 per cent after three years.

Shares granted before 2016 cannot be sold before a tax lock-up period of two-years after their vesting. Since 1 January 2016, this category does not require any tax lock-up period and can be sold immediately.

Impatriates are awarded non-qualified 'Restricted shares' that vest 33 per cent after one year, 33 per cent after two years and 34 per cent after three years.

Some 'Material Risk Taker' employees are awarded 'Restricted shares' that vest immediately and 'French qualified shares' that vest under a period of three or five years. But all the shares granted to 'Material Risk Taker' are restricted to a period of tax unavailability about six months or 12 months.

Movement on 'Restricted Shares'

	Number (000s)
Outstanding at 1 Jan 2020	**2,802**
Movements of staff during the year 2020 and previously[3]	**783**
Granted during the year[1]	**2,927**
Exercised during the year[2]	**(2,563)**
Expired during the year	**(17)**
Outstanding at 31 Dec 2020	**3,932**
– of which exercisable	**—**
Weighted average remaining contractual life (years)	**1**
Outstanding at 1 Jan 2019	698
Movements of staff during the year 2019 and previously[3]	1,544
Change of consolidation perimeter (integration of branches excluding Greece)	348
Granted during the year[1]	2,372
Exercised during the year[2]	(2,115)
Expired during the year	(45)
Outstanding at 31 Dec 2019	2,802
– of which exercisable	—
Weighted average remaining contractual life (years)	1

1 *The weighted average fair value of shares granted during the year was EUR 6.73 (2019: EUR 7.15).*
2 *The weighted average share price at the date the shares were exercised was EUR 6.05 (2019: EUR 7.29).*
3 *Corresponds to the shares granted to Group employees who joined HSBC Continental Europe during previous years net of shares granted to HSBC Continental Europe employees who joined other Group entities.*

In 2020, EUR (9) million was charged to the income statement in respect of amortisation of the existing plans for HSBC in France (in 2019: EUR (11) million).

The vesting period for deferred share awards expected to be granted in 2020, in respect of the 2019 performance year, was determined to have started on 1 January 2019.

Employee share offering

In 2020, HSBC Continental Europe did not proceed to any capital increase opened to current employees.

Income statement charge

	2020 €m	2019 €m
Restricted share awards	**13**	15
Savings related and other share option plans	**—**	—
Year ended 31 Dec	**13**	15

Pension and other post-retirement benefits

Policy

HSBC Continental Europe operates a number of pension and other post-retirement benefit plans. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-retirement benefits.

HSBC Continental Europe pays each retiree a retiring indemnity. The amount is determined by the final earnings, the length of service in the company at this date and the guarantees under collective and internal agreements. Those plans represent 71 per cent of all commitments in France.

HSBC Continental Europe grants certain beneficiaries a scheme plan. Those scheme plan forecast the payment of benefits from the date of retirement. Those plans represent roughly 20 per cent of all commitments in France.

The costs recognised for funding these post-employment plans are determined using the Projected Unit Credit Method, with annual actuarial valuations performed on each plan.

HSBC Continental Europe recognises actuarial gains and losses directly in equity, without being recognised in income. Past service costs are immediately recognised. The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are charged to operating expenses.

The net defined benefit liability recognised in the balance sheet related to post-employment benefits recognised represents the present value of the defined benefit obligations reduced by the fair value of plan assets.

Payments to defined contribution plans and state-managed retirement benefit plans, where HSBC Continental Europe obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

Post-employment defined benefit plans' principal actuarial assumptions

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2020, and the 2020 periodic costs, were:

Key actuarial assumptions for the principal plan

	Discount rate	Inflation rate	Rate of increase for pensions and deferred pensions[1]	Rate of pay increase
	%	%	%	%
At 31 Dec 2020	**0.40**	**1.50**	**0.40**	**2.57**
At 31 Dec 2019	0.65	1.50	1.50	2.61

1 The rate of increase for pensions and deferred pensions is 0.40 per cent in 2021 and back to 1.50 per cent after 2021.

HSBC Continental Europe determines discount rates, in consultation with its actuary based upon the current average yield of high quality (AA rated or equivalent) debt instruments, with maturities consistent with that of the defined benefit obligations.

Mortality tables and average life expectancy at age 60 for the principal plan

	Mortality table	Life expectancy at age 60 for a male member currently:	Life expectancy at age 60 for a female member currently:
		Aged 60	Aged 60
At 31 Dec 2020	**TV–TD 2014 2016**	**23.05**	**27.53**
At 31 Dec 2019	TV 88-90	24.02	24.02

Recognition of defined benefit plans

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	Present value of defined benefit obligations	Effect of limit on plan surpluses	Total
	€m	€m	€m	€m
Defined benefit pension plans	**6**	**181**	**—**	**175**
Defined benefit healthcare plans	**—**	**—**	**—**	**—**
At 31 Dec 2020	**6**	**181**	**—**	**175**
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')				**175**
Total employee benefit assets (within 'Prepayments, accrued income and other assets')				**—**
Defined benefit pension plans	7	195	—	188
Defined benefit healthcare plans	—	—	—	—
At 31 Dec 2019	7	195	—	188
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')				188
Total employee benefit assets (within 'Prepayments, accrued income and other assets')				—

Cumulative actuarial gains/(losses) recognised in other comprehensive income

	2020	2019
	€m	€m
At 1 January	**89**	68
Total actuarial gains/(losses) recognised in other comprehensive income for the year	**4**	21
At 31 December	**93**	89

Actuarial gains and losses of the year are composed of EUR 5 millions due to actuarial assumptions' changes attributed to the decrease of the discount rate from 0.65 per cent to 0.40 per cent, and to changes in life expectancy assumptions with an impact of EUR (1) million.

Actuarial assumption sensitivities

The following table shows the effect of changes in actuarial assumptions on the principal plan. The discount rate is sensitive to changes in market conditions arising during the reporting period. The mortality rates used are sensitive to experience from the plan member profile.

	Defined benefits pension plan			
	Financial impact of increase		Financial impact of decrease	
	2020	2019	**2020**	2019
	€m	€m	**€m**	€m
Discount rate – increase/decrease of 0.25%	**(6)**	(6)	**6**	6
Inflation rate – increase/decrease of 0.25%	**1**	1	**(1)**	(1)
Pension payments and deferred pensions – increase/decrease of 0.25%	**1**	1	**(1)**	(1)
Pay – increase/decrease of 0.25%	**4**	5	**(4)**	(5)
Change in mortality – increase of 1 year	**2**	2	**(2)**	(2)

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit asset/(liability)
	Principal plan		
	€m	€m	€m
At 1 Jan 2020	**7**	**195**	**188**
Service cost	**—**	**(12)**	**(12)**
– current service cost	**—**	**8**	**8**
– past service cost and gains/(losses) from settlements	**—**	**(20)**	**(20)**
Net interest income/(cost) on the net defined benefit asset/(liability)	**—**	**1**	**1**
Re-measurement effects recognised in other comprehensive income	**—**	**4**	**4**
– return on plan assets (excluding interest income)	**—**	**—**	**—**
– actuarial gains/(losses)	**—**	**3**	**3**
– other changes	**—**	**1**	**1**
Transfers[1]	**—**	**1**	**1**
Exchange differences	**—**	**—**	**—**
Benefits paid	**(1)**	**(8)**	**(7)**
Other movements	**—**	**—**	**—**
At 31 Dec 2020	**6**	**181**	**175**
At 1 Jan 2019	8	173	165
Service cost	—	5	5
– current service cost	—	6	6
– past service cost and gains/(losses) from settlements	—	(1)	(1)
Net interest income/(cost) on the net defined benefit asset/(liability)	—	2	2
Re-measurement effects recognised in other comprehensive income	—	21	21
– return on plan assets (excluding interest income)	—	—	—
– actuarial gains/(losses)	—	21	21
– other changes	—	—	—
Transfers[2]	—	3	3
Exchange differences	—	—	—
Benefits paid	(1)	(9)	(8)
Other movements	—	—	—
At 31 Dec 2019	7	195	188

1 *This amount corresponds to transfer of employees from HSBC Bank plc Paris Branch to HSBC Continental Europe.*
2 *This amount corresponds to changes in the perimeter during the year.*

Benefits expected to be paid from the plans to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plans

	2021	2022	2023	2024	2025	2026–2030
	€m	€m	€m	€m	€m	€m
The principal plan[1]	**10**	6	8	8	9	38

1 *The duration of the defined benefit obligation is 13 years for the principal plan under the disclosure assumptions adopted (2019: 13 years) and 13 years for all other plans combined (2019: 13 years).*

Fair value of plan assets by asset classes

	31 Dec 2020				31 Dec 2019			
	Fair value	**Quoted market price in active market**	**No quoted market price in active market**	**Thereof HSBC**	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Fair value of plan assets	**6**	**6**	**—**	**—**	7	7	—	—
– equities	**—**	**—**	**—**	**—**	—	—	—	—
– bonds	**6**	**6**	**—**	**—**	7	7	—	—
– derivatives	**—**	**—**	**—**	**—**	—	—	—	—
– other	**—**	**—**	**—**	**—**	—	—	—	—

6 Auditors' remuneration

	PricewaterhouseCoopers Audit France[1]		**BDO Paris Audit & Advisory[1]**	
	Amount (excluding VAT)		**Amount (excluding VAT)**	
	€k	**%**	**€k**	**%**
Fees for account certifications	**3,543**	**88**	**494**	**94**
Fees for other services provided to HSBC Continental Europe	**499**	**12**	**31**	**6**
Year ended 31 Dec 2020	**4,042**	**100**	**525**	**100**
Fees for account certifications	3,377	87	516	92
Fees for other services provided to HSBC Continental Europe	517	13	43	8
Year ended 31 Dec 2019	3,894	100	559	100

1 *This Note is prepared in compliance with ANC regulation 2016-08, 2016-09, 2016-10 and 2016-11 and includes only the fees paid to PricewaterhouseCoopers Audit France and BDO Paris Audit & Advisory (2019 figures have been re-presented accordingly).*

Services other than the account certification at 31 December 2020 for PricewaterhouseCoopers Audit France and BDO Paris Audit & Advisory mainly concern comfort letters related to the programmes of issuances and interim dividends, legal or regulatory services and also services related to internal control procedures (i.e. report ISAE 3402).

7 Tax

Tax expense

	2020	2019
	€m	€m
Current tax	**52**	45
Deferred tax	**28**	(28)
Year ended 31 Dec	**80**	17

HSBC Continental Europe's profits are taxed at different rates depending on the country in which the profits arise. The key applicable corporate tax rates concerns France.

The 2020 Finances Law *('Loi de Finances')* has reviewed the gradual decrease of the corporate tax rate from 33 1/3 in 2019 to 25 per cent in 2022.

The social contribution on profit (CSB at 3.3 per cent of the income tax) is maintained and is added to the income tax.

As a consequence, at French Tax group level, in 2020, France's tax rate is 32.02 per cent (2019: 34.43 per cent).

Other overseas subsidiaries and branches provide for taxation at the appropriate rates in the countries in which they operate.

In application of the standard IAS 12, at each deferred tax basis, assumptions of date of recovery were taken to determine these deferred tax rate to apply to take into account the French tax rate decrease from 33 1/3 to 25 per cent.

Considering the recent losses incurred and the wider context of uncertainty, it was judged that the net deferred tax asset ('DTA') should be written off and no further net DTA should be recognised. Recognition will be reassessed at each balance sheet date.

The increase of the tax expense between 2019 and 2020 is mainly due to the write-off in 2020 of net deferred tax asset recognised in December 2019.

Tax risks

In 2018, HSBC Leasing (France) incurred a tax audit for the years 2015 and 2016, the tax audit has continued in 2019 and 2020 for years 2017 and 2018. In the frame of these tax audits, the French tax authorities have reassessed the tax treatment of provisions related to some aircraft leasing transactions.

HSBC Leasing (France) disputed the reassessments with the French tax authorities.

A provision corresponding to the best estimate of the risk has been recorded at 31 December 2018 and is periodically reassessed at each balance sheet date.

Analysis of overall tax charge

Tax reconciliation

	2020		2019	
	Overall tax charges		Overall tax charges	
	€m	%	€m	%
Profit/(loss) before tax	(945)		(22)	
Tax expense				
Taxation at French corporate tax rate	(303)	32.02	(7)	34.43
Impact of differently taxed overseas profits in overseas locations	(10)	1.1	(23)	107.9
Items impacting tax charge:				
– Permanent disallowables	39	(4.2)	41	(193.1)
– Local taxes and overseas withholding taxes	10	(1.1)	15	(68.6)
– Changes in tax rates	20	(2.1)	(14)	63.9
– Non-taxable income and gains subject to tax at a lower rate	(1)	0.1	(2)	8.4
– Adjustment in respect of prior years	11	(1.2)	7	(30.9)
– Deferred tax on tax losses or temporary differences not provided	326	(34.5)	—	—
– Other items	(12)	1.3	—	1.3
Year ended 31 Dec	80	(8.4)	17	(77.1)

The effective tax rate for 2020 of (8.4) per cent whereas French current tax rate is 32.02 per cent is explained mainly by non-recognition of net deferred tax asset as of 31 December 2020 and permanent disallowables (of which the impact of the non-deductible Single Resolution Fund contribution).

Movement of deferred tax assets and liabilities

	Retirement benefits	Loans impairment allowances	Financial assets at FVOCI	Goodwill and intangibles	Other[1]	Total
	€m	€m	€m	€m	€m	€m
Assets	37	22	(6)	11	165	229
Liabilities	1	—	(19)	—	(157)	(175)
At 1 Jan 2020	38	22	(25)	11	8	54
Income statement	(34)	26	—	(11)	(9)	(28)
Other comprehensive income	(2)	—	(11)	—	(13)	(26)
Equity	—	—	—	—	—	—
Foreign exchange and other adjustments	—	—	—	—	—	—
At 31 Dec 2020	2	48	(36)	—	(14)	—
Assets[2]	1	48	(15)	—	97	131
Liabilities[2]	1	—	(21)	—	(111)	(131)
Assets	33	22	(3)	(4)	108	156
Liabilities	1	—	(15)	—	(141)	(155)
At 1 Jan 2019	34	22	(18)	(4)	(33)	1
Income statement	(1)	—	—	15	14	28
Other comprehensive income	5	—	(7)	—	19	17
Equity	—	—	—	—	—	—
Foreign exchange and other adjustments	—	—	—	—	8	8
At 31 Dec 2019	38	22	(25)	11	8	54
Assets[2]	37	22	(6)	11	165	229
Liabilities[2]	1	—	(19)	—	(157)	(175)

1 *Deferred tax in 'Other' includes essentially deferred tax assets from Mark-to-Market on issuances of Covered Bonds and Derivatives and deferred tax liabilities on PVIF. Non-recognised Deferred Tax Assets has been apportioned to the categories 'retirement benefits', 'goodwill and intangibles' and 'others'.*

2 *After netting off balances within entities, the balances as disclosed in the accounts are as follows: deferred tax assets EUR 131 million (2019: EUR 229 million); and deferred tax liabilities EUR (131) million (2019: EUR (175) million).*

CVAE

Since 2010, the French Tax '*taxe professionnelle*' was replaced by a new tax '*contribution économique territoriale' ('CET')* composed of the '*cotisation foncière des entreprises*' *('CFE')* based on the rental value of taxable property, and the '*cotisation sur la valeur ajoutée des entreprises*' *('CVAE')* corresponding to 1.54 per cent of added-value of the year.

HSBC Continental Europe has treated the *CVAE* as income tax, in application of IAS 12. Deferred *CVAE* contributions are accounted for on the basis of temporary differences between the book value of assets and liabilities and their tax value from a *CVAE* standpoint.

Since 2014, the *CVAE* contribution is included in 'Income Tax'. In 2020, the impact of this accounting position was a classification of a charge of EUR 12.3 million (2019: EUR 16.7 million) on the 'Income Tax' and the recognition of a deferred tax charge of EUR 0.3 million (2019: profit EUR 3 million).

8 Dividends

Dividends to shareholders of the parent company

	2020		2019	
	Per share	Total	Per share	Total
	€	€m	€	€m
Dividends paid on ordinary shares				
In respect of previous year:				
– exceptional dividend	–	–	–	–
– dividend paid	–	–	–	–
In respect of current year:				
– first interim dividend	–	–	–	–
Total dividend paid to shareholders	–	–	–	–
Total coupons on capital instruments classified as equity		**30**		21

Dividends related to 2020

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

Dividends related to 2019

The Combined General Meeting held on 13 March 2020 approved the recommendation of the Board of Directors, on 18 February 2020, not to distribute a dividend in respect of the year 2019.

Dividends per share for 2020 & 2019

	2020	2019
	€	€
Dividends per share[1]	–	–

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

Other equity instruments

Total coupons on capital instruments classified as equity[1]

		2020	2019
	First call date	€m	€m
Perpetual subordinated capital instruments			
– EUR 200 million issued at 4.56%	May 2022	**9**	9
– EUR 300 million issued at 4%	March 2023	**12**	12
– EUR 250 million issued at 3.46%	December 2024	**9**	–
Total		**30**	21

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

9 Earnings per share

Basic earnings per ordinary share were calculated by dividing the basic earnings of EUR (1,022) million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 98,231,196 (full year 2019: earnings of EUR (39) million and 92,571,906 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 98,231,196 (full year 2019: 92,571,906 shares). At 31 December 2020, no potentially dilutive ordinary share had been issued.

Basic and diluted earnings per share

	2020			2019		
	Profit/ (loss)	Number of shares	Per share	Profit/ (loss)	Number of shares	Per share
	€m	(millions)	€	€m	(millions)	€
Basic earnings per share	**(1,022)**	**98**	**(10.43)**	(39)	93	(0.41)
Diluted earnings per share	**(1,022)**	**98**	**(10.43)**	(39)	93	(0.41)

10 Trading assets

	2020	2019
	€m	€m
Treasury and other eligible bills	**853**	1,427
Debt securities	**12,001**	13,409
Equity securities	**—**	—
Trading securities	**12,854**	14,836
Loans and advances to banks	**27**	1
Loans and advances to customers	**73**	—
Year-ended 31 Dec	**12,954**	14,837

11 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, we source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradeable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date;
- the manner in which the data was sourced.

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support function of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs.

Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Financial liabilities measured at fair value

In certain circumstances, HSBC Continental Europe records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are based either on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread that is appropriate to the HSBC Continental Europe's liabilities.

Structured notes issued and certain other hybrid instruments are included within trading liabilities and are measured at fair value.The spread applied to these instruments is derived from the spreads at which HSBC Continental Europe issues structured notes.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – Valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC Continental Europe can access at the measurement date.
- Level 2 – Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – Valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

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

Financial instruments carried at fair value and bases of valuation

	Valuation techniques				Amount with HSBC entities		
	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant non-observable inputs	Third-party Total	Amounts with HSBC entities	*Of which Level 3*	Total
At 31 Dec 2020	**€m**	**€m**	**€m**	**€m**	**€m**	***€m***	**€m**
Assets							
Trading assets	**11,449**	**1,468**	**29**	**12,946**	**8**	**—**	**12,954**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**2,891**	**6,227**	**2,279**	**11,397**	**251**	**—**	**11,648**
Derivatives	**35**	**35,911**	**109**	**36,055**	**20,420**	***491***	**56,475**
Financial investments	**11,570**	**6,331**	**815**	**18,716**	**445**	***127***	**19,161**
Liabilities							
Trading liabilities	**17,809**	**19**	**—**	**17,828**	**—**	**—**	**17,828**
Financial liabilities designated at fair value	**—**	**16,340**	**552**	**16,892**	**—**	**—**	**16,892**
Derivatives	**17**	**37,706**	**239**	**37,962**	**17,752**	***138***	**55,714**
At 31 Dec 2019[1]							
Assets							
Trading assets	13,461	1,373	2	14,836	1	—	14,837
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,697	6,678	2,325	11,700	257	—	11,957
Derivatives	27	28,197	442	28,666	17,058	*328*	45,724
Financial investments	7,571	7,957	1,006	16,534	447	*75*	16,981
Liabilities							
Trading liabilities	23,249	13	—	23,262	—	—	23,262
Financial liabilities designated at fair value	7,531	11,115	307	18,953	—	—	18,953
Derivatives	20	27,955	130	28,105	17,010	*469*	45,115

1 2019 balances have been re-presented following a refinement in application of the levelling methodology primarily for private debt and equity and real-estate investments during the period. The result of this is a total of EUR 16.0 billion moving from Level 1, and EUR 13.4 billion and EUR 2.6 billion into Levels 2 and 3 respectively. The change has impacted financial investments and financial assets designated and otherwise mandatorily measured at fair value.

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 31 Dec 2020							
Transfers from Level 1 to Level 2	**223**	**185**	**—**	**—**	**18**	**6,609**	**—**
Transfers from Level 2 to Level 1	**1,766**	**188**	**80**	**—**	**—**	**—**	**—**
At 31 Dec 2019[1]							
Transfers from Level 1 to Level 2	2,411	1,046	—	—	—	—	—
Transfers from Level 2 to Level 1	615	35	—	—	—	—	—

1 2019 balances have been re-presented following a refinement in application of the levelling methodology. The result of this is an increase in transfers from level 1 to level 2 and level 2 to level 1 of EUR 2.4 billion and EUR 0.6 billion respectively for financial investments and a decrease of EUR 1.2 billion in transfers from Level 1 to Level 2 for Assets designated and otherwise mandatorily measured at fair value.

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 normally attributable to observability of valuation inputs and price transparency.

Fair value adjustments

Fair value adjustments are adopted when we determine there are additional factors considered by market participants that are not incorporated within the valuation model.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and fair value adjustments may no longer be required.

Bid-offer

IFRS 13 'Fair value measurement' requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit valuation adjustment ('CVA')

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and that HSBC Continental Europe may not receive the full market value of the transactions.

Debit valuation adjustment ('DVA')

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that HSBC Continental Europe may default, and that it may not pay the full market value of the transactions.

Funding fair value adjustment ('FFVA')

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC Continental Europe or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted by HSBC Continental Europe when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

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
Private equity including strategic investments	**21**	**—**	**1,974**	**—**	**1,995**	**—**	**—**	**—**	**—**
Asset-backed securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**552**	**—**	**552**
Derivatives	**—**	**—**	**—**	**109**	**109**	**—**	**—**	**239**	**239**
Other portfolios	**794**	**29**	**305**	**—**	**1,128**	**—**	**—**	**—**	**—**
HSBC Group subsidiaries	**127**	**—**	**—**	**491**	**618**	**—**	**—**	**138**	**138**
Year ended 31 Dec 2020	**942**	**29**	**2,279**	**600**	**3,850**	**—**	**552**	**377**	**929**
Private equity including strategic investments	13	—	1,841	—	1,854	—	—	—	—
Asset-backed securities	—	—	—	—	—	—	—	—	—
Structured notes	—	2	—	—	2	—	307	—	307
Derivatives	—	—	—	442	442	—	—	130	130
Other portfolios	993	—	484	—	1,477	—	—	—	—
HSBC Group subsidiaries	75	—	—	328	403	—	—	469	469
Year ended 31 Dec 2019[1]	1,081	2	2,325	770	4,178	—	307	599	906

1 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The result of this is an increase of EUR 2.6 billion of assets in Level 3; other portfolios increased by EUR 1.2 billion and private equity including strategic investments by EUR 1.4 billion. The change has impacted financial investments and financial assets designated and otherwise mandatorily measured at fair value.*

Private equity including strategic investments

HSBC Continental Europe's private equity positions are generally classified as financial investments and are not traded on an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted on an active market, or the price at which similar companies have changed ownership. Fair value investment estimation being subjected to judgement and uncertainty subjective factors remain until the private equity investment is sold.

Derivatives

Over-the-counter (i.e. non-exchange traded) derivatives valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry.

For more complex derivative products, there may be some divergence in market practice.

Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives. The notes are classified as Level 3 due to the unobservability of parameters such as long-dated equity volatilities and correlations between equity prices, between equity prices and interest rates and between interest rates and foreign exchange rates.

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2020	**1,081**	**2**	**2,325**	**770**	**–**	**307**	**599**
Total gains/(losses) recognised in profit or loss	–	(2)	75	(347)	–	124	(357)
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	–	(2)	–	(347)	–	–	(357)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	75	–	–	124	–
– gains less losses from financial investments at fair value through other comprehensive income	–	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income	60	–	–	–	–	–	–
– financial investments: fair value gains/(losses)	60	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	–	–
Purchases	386	46	288	–	–	–	–
New issuances	–	–	–	–	–	19	–
Sales	(585)	(46)	(324)	–	–	–	–
Settlements	–	(21)	(85)	105	–	14	93
Transfer out	–	–	–	(2)	–	(108)	(1)
Transfer in	–	50	–	74	–	196	43
At 31 Dec 2020	**942**	**29**	**2,279**	**600**	**–**	**552**	**377**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	–	–	148	81	–	71	109
– trading income/(expense) excluding net interest income	–	–	–	81	–	–	109
– net income/(expense) from other financial instruments designated at fair value	–	–	148	–	–	71	–
– expected credit loss charges and other credit risk charges	–	–	–	–	–	–	–

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 2019[1]	722	2	2,192	615	—	292	435
Total gains/(losses) recognised in profit or loss	—	(2)	21	179	—	5	132
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	(2)	—	179	—	—	132
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	21	—	—	5	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	33	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	33	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	382	2	426	1	—	139	45
New issuances	—	—	—	—	—	42	—
Sales	(41)	—	(28)	—	—	(170)	—
Settlements	—	—	(286)	(11)	—	23	(13)
Transfer out	(15)	—	—	(25)	—	(41)	(6)
Transfer in	—	—	—	11	—	17	6
At 31 Dec 2019	1,081	2	2,325	770	—	307	599
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2019	—	—	37	183	—	18	127
– trading income/(expense) excluding net interest income	—	—	—	183	—	—	127
– net income/(expense) from other financial instruments designated at fair value	—	—	37	—	—	18	—

1 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The result of this is an increase of EUR 2.6 billion of assets in Level 3; financial investments increased by EUR 1.1 billion and financial assets designated and otherwise mandatorily measured at fair value by EUR 1.5 billion.*

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 31 December 2020				At 31 Dec 2019[2]			
	Reflected in profit or loss		**Reflected in other comprehensive Income**		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Derivatives/trading assets/trading liabilities[1]	**9**	**(9)**	**—**	**—**	10	(10)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**121**	**(122)**	**—**	**—**	127	(111)	—	—
Financial investments	**—**	**—**	**43**	**(43)**	—	—	54	(57)
HSBC Group subsidiaries	**23**	**(23)**	**6**	**(6)**	16	(16)	—	—
Total	**153**	**(154)**	**49**	**(49)**	153	(137)	54	(57)

1 *Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.*
2 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The impact changes reflected through OCI due to financial investments is EUR 53 million and EUR 77 million reflected in profit or loss due to financial assets designated and mandatorily measured at fair value.*

The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type.

	Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
2020				
Private equity including strategic investments	**102**	**(102)**	**1**	**(1)**
Asset-backed securities	**—**	**—**	**—**	**—**
Structured notes	**10**	**(10)**	**—**	**—**
Derivatives	**9**	**(9)**	**—**	**—**
Other portfolios	**9**	**(10)**	**42**	**(42)**
HSBC Group subsidiaries	**23**	**(23)**	**6**	**(6)**
Year ended 31 Dec	**153**	**(154)**	**49**	**(49)**
2019[1]				
Private equity including strategic investments	116	(97)	1	(1)
Asset-backed securities	—	—	—	—
Structured notes	1	(1)	—	—
Derivatives	10	(10)	—	—
Other portfolios	10	(13)	53	(56)
HSBC Group subsidiaries	16	(16)	—	—
Year-ended 31 Dec	153	(137)	54	(57)

1 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The impact changes reflected through OCI due to other portfolios is EUR 53 million and EUR 77 million reflected in profit or loss due to Private equity including strategic investments (EUR 69 million) and other portfolios (EUR 8 million).*

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

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 from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

The table above lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 31 December 2020. A further description of the categories of key unobservable inputs is given below.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value[1] Assets	Fair value[1] Liabilities	Valuation technique	Key unobservable inputs	Full range of inputs Lower	Full range of inputs Higher	Core range of inputs Lower	Core range of inputs Higher
	€m	€m			%	%	%	%
At 31 Dec 2020								
Private equity including strategic investments	**1,995**	**–**	**See notes below**	**See notes below**	**N/A**	**N/A**	**N/A**	**N/A**
Asset-backed securities								
– CLO/CDO[2]	**–**	**–**	**Market proxy**	**Bid quotes**	**–**	**–**	**–**	**–**
– other ABSs	**–**	**–**						
Structured notes	**–**	**552**						
– equity-linked notes	**–**	**285**	**Model – Option model**	**Equity volatility**	**–**	**51**	**–**	**–**
– fund-linked notes	**–**	**–**	**Model – Option model**	**Fund volatility**	**–**	**–**	**–**	**–**
– FX-linked notes	**–**	**–**	**Model – Option model**	**FX volatility**	**–**	**–**	**–**	**–**
– other	**–**	**267**						
Derivatives	**600**	**377**						
Interest rate derivatives	**435**	**219**						
– securitisation swaps	**141**	**–**	**Model – DCF[3]**	**Prepayment rate**	**50**	**50**	**–**	**–**
– long-dated swaptions	**131**	**56**	**Model – Option model**	**IR volatility**	**16**	**28**	**–**	**–**
– other	**163**	**163**						
Foreign exchange derivatives	**3**	**3**						
– foreign exchange options	**3**	**3**	**Model – Option model**	**FX volatility**	**7**	**16**	**–**	**–**
Equity derivatives	**162**	**155**						
– long-dated single stock options	**–**	**–**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– other	**162**	**155**						
Credit derivatives								
– other	**–**	**–**						
Other portfolios	**1,255**	**–**						
Total Level 3	**3,850**	**929**						
At 31 Dec 2019[4]								
Private equity including strategic investments	1,854	–	See notes below	See notes below	N/A	N/A	N/A	N/A
Asset-backed securities								
– CLO/CDO[2]	–	–	Market proxy	Bid quotes	–	–	–	–
– other ABSs	–	–						
Structured notes	2	307						
– equity-linked notes	–	224	Model – Option model	Equity volatility	–	–	–	–
– fund-linked notes	–	–	Model – Option model	Fund volatility	–	–	–	–
– FX-linked notes	–	–	Model – Option model	FX volatility	–	–	–	–
– other	2	83						
Derivatives	770	599						
Interest rate derivatives	721	574						
– securitisation swaps	139	1	Model – DCF[3]	Prepayment rate	50	50	50	50
– long-dated swaptions	500	433	Model – Option model	IR volatility	16	36	18	31
– other	82	140						
Foreign exchange derivatives								
– foreign exchange options	–	–	Model – Option model	FX volatility	9	11	9	11
Equity derivatives	49	25						
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–	–	–
– other	49	25						
Credit derivatives								
– other	–	–						
Other portfolios	1,552	–						
Total Level 3	4,178	906						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted cash flow.*
4 *2019 balances have been re-presented following a refinement in application of the levelling methodology. The result of this is an increase of EUR 2.6 billion of assets in Level 3; other portfolios increased by EUR 1.2 billion and private equity including strategic investments by EUR 1.4 billion.*

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. They vary according to the nature of the loan portfolio and expectations of future market conditions, and may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historical prepayment rates and macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument for which specific market pricing is not available, but evidence is available in respect of instruments that have some characteristics in common. In some cases it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

Correlation

Correlation is a measure of the inter-relationship between two market prices. Correlation is a number between minus one and one. A positive correlation implies that the two market prices tend to move in the same direction, with a correlation of one implying that they always move in the same direction. A negative correlation implies that the two market prices tend to move in opposite directions, with a correlation of minus one implying that the two market prices always move in opposite directions.

Correlation may be unobservable. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC Continental Europe trade prices, proxy correlations and examination of historical price relationships.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept a lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices. Credit spreads may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events.

12 Fair values of financial instruments not carried at fair value

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.

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 – Significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 31 Dec 2020					
Assets					
Loans and advances to banks	**6,781**	**—**	**6,782**	**—**	**6,782**
Loans and advances to customers	**56,225**	**—**	**—**	**56,334**	**56,334**
Reverse repurchase agreements – non-trading	**21,522**	**—**	**21,522**	**—**	**21,522**
Financial investments: debt securities at amortised cost	**6**	**—**	**—**	**6**	**6**
Liabilities					
Deposits by banks	**17,204**	**—**	**17,145**	**—**	**17,145**
Customer accounts	**61,393**	**—**	**61,387**	**—**	**61,387**
Repurchase agreements – non-trading	**10,984**	**—**	**10,984**	**—**	**10,984**
Debt securities in issue	**3,605**	**—**	**3,605**	**—**	**3,605**
Subordinated liabilities[1]	**1,876**	**—**	**1,958**	**—**	**1,958**
At 31 Dec 2019					
Assets					
Loans and advances to banks	6,798	—	6,800	—	6,800
Loans and advances to customers	56,956	—	—	57,037	57,037
Reverse repurchase agreements – non-trading	45,973	—	45,973	—	45,973
Financial investments: debt securities at amortised cost	6	—	—	6	6
Liabilities					
Deposits by banks	12,113	—	12,113	—	12,113
Customer accounts	57,550	—	57,545	—	57,545
Repurchase agreements – non-trading	20,213	—	20,213	—	20,213
Debt securities in issue	9,782	—	9,782	—	9,782
Subordinated liabilities	1,376	—	1,429	—	1,429

1 *During 2020, HSBC Continental Europe has issued a New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 500 million with a maturity of 10 years.*

Valuation

The fair value measurement is HSBC Continental Europe's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs expected to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third-party brokers which reflect over-the-counter trading activity; forward-looking discounted cash flow models using assumptions which HSBC Continental Europe believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value impact of repricing between origination and the balance sheet date.

Deposits by banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as their balances are generally short dated.

13 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2020	2019
	Designated at fair value and otherwise mandatorily measured at fair value	Designated at fair value and otherwise mandatorily measured at fair value
	€m	€m
Securities	**11,507**	11,639
– debt securities	**2,796**	2,896
– equity securities	**8,711**	8,743
Loans and advances to banks and customers	**141**	318
Other	**—**	—
Year ended 31 Dec	**11,648**	11,957

14 Derivatives

The table shows the fair value of derivatives by contract type:

Notional contract amounts and fair values of derivatives by product contract type held by HSBC Continental Europe

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	**Hedging**	**Trading**	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Foreign exchange	**555,346**	**261**	**9,138**	**18**	**9,156**	**8,723**	**—**	**8,723**
Interest rate	**3,758,436**	**15,277**	**53,856**	**—**	**53,856**	**53,571**	**55**	**53,626**
Equities	**23,562**	**—**	**528**	**—**	**528**	**400**	**—**	**400**
Credit	**6,065**	**—**	**58**	**—**	**58**	**87**	**—**	**87**
Commodity and other	**1,176**	**—**	**3**	**—**	**3**	**4**	**—**	**4**
Gross total fair values	**4,344,585**	**15,538**	**63,583**	**18**	**63,601**	**62,785**	**55**	**62,840**
Offset (Note 28)					**(7,126)**			**(7,126)**
At 31 Dec 2020	**4,344,585**	**15,538**	**63,583**	**18**	**56,475**	**62,785**	**55**	**55,714**
Foreign exchange	449,934	8	6,251	1	6,252	5,963	—	5,963
Interest rate	3,692,489	17,299	44,047	3	44,050	43,767	63	43,830
Equities	26,896	—	309	—	309	187	—	187
Credit	11,622	—	165	—	165	187	—	187
Commodity and other	120	—	1	—	1	1	—	1
Gross total fair values	4,181,061	17,307	50,773	4	50,777	50,105	63	50,168
Offset (Note 28)					(5,053)			(5,053)
At 31 Dec 2019	4,181,061	17,307	50,773	4	45,724	50,105	63	45,115

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Trading derivatives

Most of HSBC Continental Europe's derivative transactions relate to sales and trading activities. Positions come from the activity with clients, including as a result of reasonable expected short-term demand of clients and dynamic hedging of the positions.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had the valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is in the following table:

Unamortised balance of derivatives valued using models with significant unobservable inputs

	2020	2019
	€m	€m
Unamortised balance at 1 Jan	**3**	3
Deferral on new transactions	**3**	—
Recognised in the income statement during the year:	**(1)**	—
– amortisation	**(1)**	—
– maturity, termination or offsetting derivative	**—**	—
Exchange differences and other	**—**	—
At 31 Dec	**5**	3

Hedge Accounting derivatives

HSBC Continental Europe uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables us to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. These are described under the relevant headings below.

Fair value hedges

HSBC Continental Europe's fair value hedges principally consist of interest rate swaps that are used to protect against changes due to movements in market interest rates in the fair value of fixed-rate long-term financial instruments of portfolio and fixed rates loans. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the hedging period.

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value
Hedged Risk	€m	€m	€m		€m
Interest rate[2]	**8,469**	**—**	**55**	**Derivatives**	**(87)**
At 31 Dec 2020	**8,469**	**—**	**55**		**(87)**
Hedged Risk					
Interest rate[2]	12,199	3	62	Derivatives	(60)
At 31 Dec 2019	12,199	3	62		(60)

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

Hedged item by hedged risk

	Hedged Item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	€m	€m	€m	€m		€m	€m	
Interest rate[2]	**5,574**	**—**	**126**	**—**	**Financial assets at fair value through other comprehensive income**	**61**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
	5	**—**	**3**	**—**	**L&A to Banks**	**3**		
	1,436	**—**	**26**	**—**	**L&A to Customers**	**18**		
	—	**—**	**—**	**—**	**Debt securities in issue**	**—**		
	—	**—**	**—**	**—**	**Subordinated liabilities and deposits by Banks**	**5**		
At 31 Dec 2020	**7,015**	**—**	**155**	**—**		**87**	**—**	

HSBC France Hedged item by hedged risk (continued)

	Hedged Item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	€m	€m	€m	€m		€m	€m	
Interest rate[2]	3,474	—	93	—	Financial assets at fair value through other comprehensive income	42	1	Net income from financial instruments held for trading or managed on a fair value basis
	2	—	2	—	L&A to Banks	2		
	925	—	7	—	L&A to Customers	17		
	—	325	—	—	Debt securities in issue	—		
	—	2,605	—	34	Subordinated liabilities and deposits by Banks	—		
At 31 Dec 2019	4,401	2,930	102	34		61	1	

1 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.
2 The hedged risk 'interest rate' includes inflation risk.

Cash flow hedges

HSBC Continental Europe is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The hedges are used to protect against exposures to variability in future interest cash flows.

Hedging instrument by hedged risk

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	**€m**	**€m**	**€m**		**€m**	**€m**	**€m**	
Foreign currency	**253**	**15**	**—**	**Derivatives**	**—**	**—**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**6,808**	**—**	**—**		**31**	**30**	**1**	
At 31 Dec 2020	**7,061**	**15**	**—**		**31**	**30**	**1**	
Foreign currency	—	—	—	Derivatives	—	—	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	5,100	—	1		57	56	1	
At 31 Dec 2019	5,100	—	1		57	56	1	

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2 Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.
3 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.

Analysis of other comprehensive income by risk type

	Interest rate	Foreign Currency
	€m	€m
Cash flow hedging reserve at 1 Jan 2020	**34**	**—**
Fair value gains/(losses)	**30**	**—**
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of hedged items that has affected profit or loss	**17**	**—**
Income taxes	**(12)**	**—**
Others	**—**	**—**
Cash flow hedging reserve at 31 Dec 2020	**69**	**—**
Cash flow hedging reserve at 1 Jan 2019	(23)	—
Fair value gains/(losses)	56	—
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of hedged items that has affected profit or loss	29	—
Income taxes	(28)	—
Others	—	—
Cash flow hedging reserve at 31 Dec 2019	34	—

Embedded derivatives: home purchase savings

Home purchase savings accounts (‘CEL’) and plans (‘PEL’) are specific financial instruments established by law 65-554 of 10 July 1965. Within these products, customers build up savings during a certain period and use them to obtain loans during a subsequent period. The latter phase depends on, and cannot be separated from, the build-up phase.

To recognise derivatives embedded in PEL/CEL home purchase savings products at fair value, HSBC Continental Europe has developed a model with the following main characteristics:

- the main accounting reference is IFRS 9, concerning the measurement of fair value with respect to derivative instruments;
- the derivatives under consideration are borrowing and savings options embedded in contracts in force at the accounts-closing date:
  - the model calculates the fair value of exceptional payment and deferred payment options granted to customers (for home purchase savings plans only);
  - the model calculates the fair value of options to use acquired borrowing rights;
- the calculation is dependent on customer behaviour, and is carried out separately for each issue of PELs and on a combined basis for CELs.

At 31 December 2020, derivatives embedded in home purchase savings products represented a liability of EUR 5.7 million (at 31 December 2019: a liability of EUR 4.7 million).

Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial instruments'

The first set of amendments (Phase 1) to IFRS 9 and IAS 39, which were published in September 2019 and endorsed in January 2020, primarily allowed to assume that the interbank offered rates (‘Ibors’) are to continue unaltered for the purposes of forecasting hedged cash flows until such time as the uncertainty of transitioning to nearly risk free rates (‘RFRs’) is resolved. The second set of amendments (‘Phase 2’), issued in August 2020 and endorsed in January 2021, allows to modify hedge documentation to reflect the components of hedge relationships which have transitioned to RFRs on an economically equivalent basis as a direct result of the Ibor transition.

While, the application of Phase 1 amendments is mandatory for accounting periods starting on or after 1 January 2021, HSBC Continental Europe has chosen to early apply the Phase 2 amendments from the beginning of 2020. Significant judgement will be required in determining when Ibor transition uncertainty is resolved and therefore decide when Phase 1 amendments cease to apply and when some of the Phase 2 amendments can be applied.

The notional of the derivatives impacted by the Ibors reform but which are not used in designated hedge accounting relationship is disclosed on page 82 in the section 'Financial Instruments impacted by the Ibors reform'.

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

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

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

Hedging instrument impacted by Ibor reform

	Hedging instruments Impacted by IBOR reform						
	EUR	GBP	USD	Other	Total	Not impacted by IBOR reform	Notional Amount[1]
	€m	€m	€m	€m	€m	€m	€m
Fair Value Hedges	**6,105**	**25**	**365**	**—**	**6,495**	**1,974**	**8,469**
Cash Flow Hedges	**6,808**	**—**	**—**	**—**	**6,808**	**—**	**6,808**
At 31 Dec 2020	**12,913**	**25**	**365**	**—**	**13,303**	**1,974**	**15,277**
Fair Value Hedges	11,301	29	473	—	11,803	396	12,199
Cash Flow Hedges	5,100	—	—	—	5,100	—	5,100
At 31 Dec 2019	16,401	29	473	—	16,903	396	17,299

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

The main event occurred during 2019 and in scope of Ibor reform was the change to the calculation of the Eonia to be calculated as the Euro Short Term rate ('€STR') plus a fixed spread of 8.5 basis points. This event had no material impact to the valuation of components of designated hedge accounting relationships and there were no discontinuations of existing designated relationships. The main market events in scope of Ibor reform during 2020 were the changes applied by central clearing counterparties to remunerating EURO and US dollar collateral. While there was a minimal valuation impact to the derivatives in scope which are used for hedge accounting, these changes had no discontinuation impact to any of the designated relationships affected.

15 Financial investments

Carrying amount of financial investments

	2020	2019
	€m	€m
Financial investments measured at fair value through other comprehensive income	**19,161**	16,981
– treasury and other eligible bills	**780**	498
– debt securities	**18,359**	16,468
– equity securities	**22**	15
– other instruments	**—**	—
Debt instruments measured at amortised cost	**6**	6
– treasury and other eligible bills	**—**	—
– debt securities	**6**	6
At 31 Dec	**19,167**	16,987

Equity instruments measured at fair value through other comprehensive income

	2020		2019	
	Fair value	Dividends recognised	Fair value	Dividends recognised
	€m	€m	€m	€m
Investments required by central institutions	**21**	**—**	14	—
Others	**1**	**—**	1	—
At 31 Dec	**22**	**—**	15	—

16 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral are displayed as below:

Financial assets pledged as collateral

	2020	2019
	€m	€m
Treasury bills and other eligible securities	787	1,007
Loans and advances to banks	—	—
Loans and advances to customers	17,440	9,012
Debt securities	11,189	9,624
Equity securities	—	—
Other	15,939	12,295
Assets pledged at 31 Dec	**45,355**	31,938

The table above shows encumbered assets including those linked to TLTRO III and Covered bonds debt. The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining.

Financial assets pledged as collateral that the counterparty has the right to sell or repledge

	2020	2019
	€m	€m
Trading assets	10,983	9,882
Financial investments	360	28
At 31 Dec	**11,343**	9,910

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that HSBC Continental Europe is permitted to sell or repledge in the absence of default was EUR 52,980 million at 31 December 2020 (EUR 100,359 million at 31 December 2019).

The fair value of financial assets accepted as collateral that have been sold or repledged was EUR 47,999 million at 31 December 2020 (EUR 73,499 million at 31 December 2019). HSBC Continental Europe is obliged to return equivalent securities.

Those transactions are made in accordance with the conditions of standard securities lending and borrowing operations.

Assets transferred

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting HSBC Continental Europe's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet. Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. HSBC Continental Europe is unable to use, sell or pledge the transferred assets for the duration of these transactions, and remains exposed to interest rate risk and credit risk on these pledged assets. The counterparty's recourse is not limited to the transferred assets.

The following table analyses the carrying amount of financial assets that did not qualify for derecognition during the year and their associated financial liabilities:

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	Associated liabilities
	€m	€m
Repurchase agreements	10,153	10,193
Securities lending agreements	1,190	—
At 31 Dec 2020	**11,343**	**10,193**
Repurchase agreements	9,366	9,353
Securities lending agreements	544	—
At 31 Dec 2019	9,910	9,353

17 Interests in associates and partnerships

Associate

At 31 December 2020, HSBC Continental Europe consolidated under equity method three entities on which it exercises a joint control or a significant influence. The impact on consolidated financial statements is not significant.

	At 31 Dec 2020		
	Country of incorporation and principal place of business	Principal activity	HSBC Continental Europe's interest %
HCM Holdings Ltd	**United Kingdom**	**Asset Management**	**51**
HSBC Global Asset Management (Switzerland)	**Switzerland**	**Asset Management**	**50**
Service Epargne Entreprise	**France**	**Asset Management**	**14.2**

Although HSBC Continental Europe owns more than 50 per cent of the equity capital of HCM Holdings Ltd, the agreement with the other shareholder includes restrictions on the rights of HSBC Continental Europe as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

Regarding the entity Service Epargne Entreprise developed in partnership with other groups, HSBC Continental Europe participates in strategic decisions of the associate through its representation in the executive bodies, influences operational management by providing management systems or management staff or brings its technical cooperation to the company's growth.

The share in the results of companies under equity method is not significant.

Partnerships

As of 31 December 2020, the contribution of HSBC Middle East Leasing Partnership ('MELP') to the consolidated total assets of HSBC Continental Europe was EUR 480 million (2019: EUR 501 million) and EUR 10 million (2019: EUR 19 million) to the consolidated income statement.

18 Related information on foreign subsidiaries country by country

Related information on foreign subsidiaries country by country required by the directive 2013/36/EU ('CRD IV') has been transposed in article L. 511-45 of the French Monetary and Financial Code.

	Net Operating Income	Profit/(loss) Before Tax	Current Tax	Deferred Tax	Public subsidies received	Number of employees (Full Time Equivalent)
	€m	€m	€m	€m	€m	
At 31 Dec 2020						
HSBC Continental Europe	**1,832**	**(945)**	**(52)**	**(28)**	**–**	**8,517**
– France	**1,427**	**(1,013)**	**(17)**	**(31)**	**–**	**7,238**
– Belgium	**11**	**2**	**–**	**–**	**–**	**25**
– Czech Republic	**32**	**16**	**(3)**	**–**	**–**	**79**
– Greece	**32**	**(23)**	**–**	**–**	**–**	**334**
– Ireland	**56**	**22**	**(2)**	**–**	**–**	**117**
– Italy	**44**	**(3)**	**(6)**	**–**	**–**	**115**
– Luxembourg	**66**	**(7)**	**–**	**2**	**–**	**262**
– Netherlands	**62**	**43**	**(11)**	**–**	**–**	**59**
– Spain	**74**	**20**	**(9)**	**–**	**–**	**136**
– Sweden	**2**	**(2)**	**–**	**–**	**–**	**10**
– United Kingdom	**–**	**–**	**–**	**–**	**–**	**–**
– Poland	**45**	**19**	**(4)**	**–**	**–**	**142**
– Others	**(19)**	**(19)**	**–**	**1**	**–**	**–**
At 31 Dec 2019						
HSBC Continental Europe	2,099	(22)	(45)	28	–	9,472
– France	1,686	(154)	(24)	26	–	8,085
– Belgium	9	1	–	–	–	26
– Czech Republic	41	27	(5)	–	–	94
– Greece	60	4	–	–	–	350
– Ireland	53	25	–	–	–	138
– Italy	44	10	(3)	–	–	120
– Luxembourg	60	8	(2)	–	–	271
– Netherlands	45	29	(7)	–	–	62
– Spain	70	36	–	–	–	151
– Sweden	–	(1)	–	–	–	6
– United Kingdom	–	(4)	–	–	–	2
– Poland	29	(4)	(4)	2	–	167
– Others	2	1	–	–	–	–

The list of subsidiaries by country detailing the names of entities, nature of activity and geographical location, is presented in the Note 35 on pages 227 to 230. The addresses of main locations abroad are presented on page 284.

19 Structured entities

Consolidated structured entities by HSBC Continental Europe

Total assets of HSBC Continental Europe's consolidated structured entities, split by entity type

	Conduits	Securitisations	HSBC managed funds	Other	Total
	€m	€m	€m	€m	€m
At 31 Dec 2020	**—**	**82**	**3,923**	**1,171**	**5,176**
At 31 Dec 2019	—	100	4,923	1,398	6,421

General policy

A structured entity is an entity designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. Thus, these entities have a limited scope of activities and a well-defined purpose.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 1.

HSBC Continental Europe is involved directly or indirectly with structured entities mainly through securitisation of financial assets, conduits and investment funds.

Group arrangements that involve structured entities are authorised centrally when they are established to ensure appropriate purpose and governance. The activities of structured entities administered by HSBC Continental Europe are closely monitored by senior management. HSBC Continental Europe has involvement with both consolidated and unconsolidated structured entities, which may be established by the group or by a third party, detailed below.

Securitisations

HSBC Continental Europe has interests in unconsolidated securitisation vehicles through holding notes issued by these entities.

HSBC Continental Europe managed funds

HSBC Continental Europe has established a number of money market and non-money market funds in order to offer its customer investment opportunities. When HSBC Continental Europe is deemed to be acting as principal rather than agent in its role as investment manager, HSBC Continental Europe will control and hence consolidate these funds.

HSBC Continental Europe, as fund manager, may be entitled to receive management and performance fees based on the assets under management. HSBC Continental Europe may also retain units in these funds.

Non-HSBC Continental Europe managed funds

HSBC Continental Europe purchases and holds units of third party managed funds in order to facilitate both business and customer needs.

HSBC Continental Europe sponsored structured entities

The amount of assets transferred to and income received from such sponsored entities during 2020 and 2019 was not significant.

Others

HSBC Continental Europe also enters into a number of transactions in the normal course of business, including asset and structured finance transactions where it has control of the structured entity.

Unconsolidated structured entities by HSBC Continental Europe

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the group. It includes interests in structured entities that are not consolidated. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which the group has an interest at the reporting date, as well as the group's maximum exposure to loss in relation to those interests.

Nature and risks associated with HSBC Continental Europe interests in unconsolidated structured entities

	Securitisations	Group managed funds	Non-group managed funds	Other	Total
Total asset values of the entities (€m)					
0 – 500	**—**	**100**	**117**	**11**	**228**
500 – 2,000	**—**	**32**	**68**	**—**	**100**
2,000 – 5,000	**—**	**1**	**27**	**—**	**28**
5,000 – 25,000	**—**	**—**	**21**	**—**	**21**
25,000+	**—**	**—**	**—**	**—**	**—**
Number of entities at 31 Dec 2020	**—**	**133**	**233**	**11**	**377**
Total asset values of the entities (€m)					
0 – 500	—	113	110	20	243
500 – 2,000	—	30	73	—	103
2,000 – 5,000	—	5	38	—	43
5,000 – 25,000	—	—	16	—	16
25,000+	—	—	—	—	—
Number of entities at 31 Dec 2019	—	148	237	20	405
	€m	**€m**	**€m**	**€m**	**€m**
Total assets in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	**—**	**2,408**	**2,221**	**40**	**4,669**
– trading assets	**—**	**—**	**—**	**—**	**—**
– financial assets designated and otherwise mandatorily measured at fair value	**—**	**2,408**	**2,021**	**—**	**4,429**
– loans and advances to customers	**—**	**—**	**—**	**—**	**—**
– financial investments	**—**	**—**	**200**	**11**	**211**
– derivatives	**—**	**—**	**—**	**29**	**29**
Total liabilities in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	**—**	**—**	**—**	**—**	**—**
Other off balance sheet commitments	**—**	**—**	**—**	**(37)**	**(37)**
HSBC Continental Europe's maximum exposure at 31 Dec 2020	**—**	**2,408**	**2,221**	**3**	**4,632**
	€m	€m	€m	€m	€m
Total assets in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	—	3,443	2,185	29	5,657
– trading assets	—	—	—	—	—
– financial assets designated and otherwise mandatorily measured at fair value	—	3,443	1,899	—	5,342
– loans and advances to customers	—	—	—	—	—
– financial investments	—	—	286	26	312
– derivatives	—	—	—	3	3
Total liabilities in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	—	—	—	—	—
Other off balance sheet commitments	—	—	—	—	—
HSBC Continental Europe's maximum exposure at 31 Dec 2019	—	3,443	2,185	29	5,657

The maximum exposure to loss from HSBC Continental Europe's interests in unconsolidated structured entities represents the maximum loss it could occur as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

- For commitments and guarantees, and written credit default swaps, the maximum exposure of HSBC Continental Europe to loss is the notional amount of potential future losses.
- For retained and purchased investments in and loans to unconsolidated structured entities, the maximum exposure of HSBC Continental Europe loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate HSBC Continental Europe's exposure to loss.

20 Goodwill and intangible assets

	2020	2019
	€m	€m
Goodwill	**66**	66
Present value of in force long term insurance business ('PVIF')	**490**	613
Other intangible assets[1]	**23**	314
At 31 Dec	**579**	993

1 *Other intangible assets is predominantly internally generated software in the EEA branches.*

Goodwill

Movement analysis of goodwill

	2020	2019
	€m	€m
Gross amount		
At 1 Jan	**382**	382
Exchange differences	**—**	—
Other[1]	**4**	—
At 31 Dec	**386**	382
Accumulated impairment losses		
At 1 Jan	**(316)**	(147)
Exchange differences	**—**	—
Other[1]	**(4)**	(169)
At 31 Dec	**(320)**	(316)
Net carrying amount at 31 Dec	**66**	66

1 *During the year 2019, the goodwill on Commercial Banking was impaired.*

Impairment testing

During 2020, impairment testing was performed and no impairment was recognised to the Asset Management goodwill. Refer to '2020 Impairment Testing' section below for HSBC Continental Europe impairment testing in France and EEA branches.

Impairment results and key assumptions in VIU calculation

	Goodwill at 31 Dec 2020	Discount rate	Growth rate beyond initial cash flow projections	Goodwill at 31 Dec 2019	Discount rate	Growth rate beyond initial cash flow projections
	€m	%	%	€m	%	%
Asset Management	**66**	**9.1**	**1.5**	66	8.0	1.7
Total goodwill in the CGUs listed above	**66**			66		

Other intangible assets

Other intangible assets include mortgage servicing rights, computer software, trade names, customer lists, core deposit relationships, credit card customer relationships or other loan relationships. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Where:

- intangible assets have an indefinite useful life, or are not yet ready for use, they are tested for impairment annually. An intangible asset recognised during the current period is tested before the end of the current year; and
- intangible assets have a finite useful life, except for the present value of in-force long-term insurance business, they are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The amortisation of mortgage servicing rights is included within 'Net fee income'.

Intangible assets with finite useful lives are amortised, generally on a straight-line basis, over their useful lives as follows:

- Trade names 10 years
- Internally generated software between 3 and 10 years
- Purchased software between 3 and 10 years
- Other generally 10 years.

The analysis of intangible assets movements at 31 December is as follows:

	Internally generated software €m	Purchased software €m	Other €m	Total €m
Cost				
At 1 Jan 2020	**344**	**71**	**15**	**430**
Additions	**36**	**2**	**—**	**38**
Disposals	**—**	**—**	**—**	**—**
Amount written off	**(162)**	**—**	**—**	**(162)**
Exchange differences	**—**	**—**	**—**	**—**
Other changes	**(2)**	**(7)**	**—**	**(9)**
At 31 Dec 2020	**216**	**66**	**15**	**297**
Accumulated amortisation and impairment				
At 1 Jan 2020	**(43)**	**(59)**	**(14)**	**(116)**
Amortisation charge for the year	**(20)**	**(2)**	**—**	**(22)**
Impairment charge for the year	**(287)**	**(7)**	**—**	**(294)**
Amount written off	**162**	**—**	**—**	**162**
Disposals	**—**	**—**	**—**	**—**
Exchange differences	**—**	**—**	**—**	**—**
Other changes	**(6)**	**3**	**(1)**	**(4)**
At 31 Dec 2020	**(194)**	**(65)**	**(15)**	**(274)**
Net carrying amount at 31 December 2020	**22**	**1**	**—**	**23**
Cost				
At 1 Jan 2019	184	62	15	261
Additions	143	4	—	147
Disposals	(2)	—	—	(2)
Amount written off	—	—	—	—
Exchange differences	—	—	—	—
Other changes	19	5	—	24
At 31 Dec 2019	344	71	15	430
Accumulated amortisation and impairment				
At 1 Jan 2019	(8)	(54)	(14)	(76)
Amortisation charge for the year	(23)	(3)	—	(26)
Impairment charge for the year	(7)	—	—	(7)
Amount written off	—	—	—	—
Disposals	—	—	—	—
Exchange differences	—	—	—	—
Other changes	(5)	(2)	—	(7)
At 31 Dec 2019	(43)	(59)	(14)	(116)
Net carrying amount at 31 December 2019	301	12	1	314

2020 Impairment Testing

During 2020, we considered the pervasive macroeconomic deterioration caused by the outbreak of Covid-19, along with the impact on forecast profitability, to be an indicator of impairment. Impairment testing was performed, identifying the value-in-use (recoverable amount) of the CGUs to be below their net carrying value in France.

As a result, the remaining goodwill at HSBC Continental Europe level (excluding EEA branches and subsidiaries) was impaired, EUR 294 million of capitalised software assets were impaired and written off and EUR 206 million of tangible assets were impaired , primarily right-of-use assets for leased offices, commercial and retail branches and fixtures and fittings. The impairments reflect recent losses and deterioration in the future forecasts, substantially relating to prior periods.

Impairment testing for each of the EEA branches resulted in minimal intangible asset impairments and there were no impairments recognised in relation to the subsidiaries of HSBC Continental Europe. Notably EUR 66 million in goodwill in the Asset Management subsidiary was not impaired.

We used a number of assumptions in our VIU calculation, in accordance with the requirements of IAS 36:

- Management's judgement in estimating future cash flows: we considered past business performance, the scale of the current impact from Covid-19 outbreak on our operations, current market conditions, and our macroeconomic outlook to estimate future earnings. As required by IFRSs, estimates of future cash flows exclude estimated cash inflows or outflows that are expected to arise from restructuring initiatives before an entity has a constructive obligation to carry out the plan, and would therefore have recognised a provision for restructuring costs. This means that the benefits of certain strategic actions are not included in this impairment assessment.
- Long-term growth rates: The long-term growth rate is used to extrapolate cash flows in perpetuity because of the long-term perspective within the group.
- Discount rate: Rates are based on a Capital asset pricing model ('CAPM') calculation.

Impairments were assessed as not sensitive to reasonable possible changes in assumptions.

Present value of in-force insurance business

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

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

Movements in PVIF

	2020	2019
	€m	€m
At 1 January	**613**	500
Change in PVIF of long-term insurance business	**(123)**	113
– moving forward	**(65)**	(61)
– value of new business	**24**	29
– assumption changes and others	**36**	178
– market impact	**(134)**	(55)
– experience variances	**16**	22
At 31 December	**490**	613

The PVIF moved from EUR 613 million as of 31 December 2019 to EUR 490 million as of 31 December 2020. The negative movement of EUR (123) million is mainly due to following items:

- a positive impact of current year new business of EUR 24 million which partially offsets the negative impact of the Moving forward of EUR (65) million;
- a positive effect of changes in assumptions and models evolutions of EUR 36 million mainly due to the update of the prospective non-economic assumptions of EUR 12 million and to the increase of the actuarial reserve linked to guaranteed rate payments of EUR 24 million;
- a negative impact of the economic environment of EUR (134) million mainly explained by the decrease of the interest rate in the year 2020;
- a positive impact of experience variances of EUR 16 million.

Key assumptions modification impacts over PVIF[1]

	2020	2019
	%	%
Weighted average risk free rate	**0.34**	0.44
Weighted average risk discount rate	**1.34**	1.27
Expenses inflation	**1.60**	2.00

1 *For 2020, market value future profits' discounted rate used for the PVIF is 1.34 per cent , to which a risk margin of EUR 175.3 million is added. In 2019, the market value future profits' discounted rate was 1.27 per cent, to which a risk margin of EUR 115.6 million was added.*

Sensitivity to changes in economic assumptions

The following table shows the effects of the risk-free rate movements and the discount rate on the value of PVIF at 31 December in millions of Euros for HSBC Assurances Vie.

	2020[1]	2019[1]
	€m	€m
+ 100 basis points shift in risk-free rate	**148**	130
- 100 basis points shift in risk-free rate	**(288)**	(289)
+ 100 basis points shift in risk-discount rate	**8**	(7)
- 100 basis points shift in risk-discount rate	**(11)**	8

1 *Impacts on profits are shown before tax.*

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

The sensitivities on the ultimate forward (EIOPA) rate are presented below:

	Impact on PVIF as at 31/12/2020[1]	Impact on PVIF as at 31/12/2019[1]
	€m	€m
+ 100 basis points of Ultimate Forward Rate (UFR)	**27**	44
- 100 basis points of Ultimate Forward Rate (UFR)	**(37)**	(30)

1 *Impacts on profits are shown before tax.*

Sensitivity of the PVIF to non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/ or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity at 31 December 2020 to reasonably possible changes in these non-economic assumptions at that date.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

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

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

The following table presents the PVIF sensitivity:

	Effect on total equity at 31 Dec 2020[1]	Effect on total equity at 31 Dec 2019[1]
	€m	€m
10% increase in mortality and/or morbidity rates	(14)	(14)
10% decrease in mortality and/or morbidity rates	14	15
10% increase in lapse rates	(19)	(21)
10% decrease in lapse rates	21	24
10% increase in expense rates	(43)	(41)
10% decrease in expense rates	43	41

1 *Impacts on profits are shown after tax.*

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

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

Other information are available in the session Risk Factors on the page 159 and following.

21 Prepayments, accrued income and other assets

	2020	2019
	€m	€m
Prepayments and accrued income	569	649
Settlement accounts	2,440	1,482
Cash collateral and margin receivables	15,948	12,304
Endorsements and acceptances	7	18
Reinsurers' share of liabilities under insurance contracts (Note 4)	2	2
Employee benefit assets (Note 5)	—	—
Other accounts	1,607	1,190
Right-of-use-Assets[1]	270	200
Property, plant and equipment	892	975
At 31 Dec	**21,735**	16,820

1 *The net value of the right of use breaks down into EUR 454 million as gross value and EUR (184) million as depreciation and provisions. ROU assets amounting to EUR 72 million have been recognised where the contracts are enforceable beyond their contractual end date based on management's best estimate of lease duration.*

Prepayments, accrued income and other assets include EUR 20,530 million (2019: EUR 15,608 million) of financial assets, the majority of which are measured at amortised cost.

Property, plant and equipment

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRS, less any impairment losses and depreciation calculated as per below:

- freehold land is not depreciated;
- acquisition-related expenses on buildings are expensed in the year in which they occur, same as preliminary costs;
- depreciation of buildings is calculated over their estimated useful lives, which are generally between 25 to 75 years.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC Continental Europe is the lessor) are stated at cost less impairment losses and depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 to 25 years. HSBC Continental Europe holds certain properties as investments to earn rentals or for capital appreciation, or both. Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques. Property, plant and equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

	Freehold land and buildings[1]	Equipment, fixtures and fittings	Total
	€m	€m	€m
Cost or fair value			
At 1 Jan 2020	**883**	**599**	**1,482**
Additions at cost	**—**	**49**	**49**
Fair value adjustments	**20**	**—**	**20**
Disposals	**(2)**	**(65)**	**(67)**
Transfers	**—**	**—**	**—**
Exchange and other differences	**—**	**—**	**—**
Changes in scope of consolidation and other changes	**1**	**—**	**1**
At 31 Dec 2020	**902**	**583**	**1,485**
Accumulated depreciation			
At 1 Jan 2020	**(45)**	**(462)**	**(507)**
Depreciation charge for the year	**(4)**	**(48)**	**(52)**
Disposals	**1**	**65**	**66**
Transfers	**—**	**—**	**—**
Impairment loss recognised	**(9)**	**(92)**	**(101)**
Exchange translation differences	**—**	**—**	**—**
Changes in scope of consolidation and other changes	**—**	**1**	**1**
At 31 Dec 2020	**(57)**	**(536)**	**(593)**
Net book value at 31 Dec 2020	**845**	**47**	**892**
Cost or fair value			
At 1 Jan 2019	793	567	1,360
Additions at cost	37	31	68
Fair value adjustments	43	—	43
Disposals	(1)	(9)	(10)
Transfers	11	23	34
Exchange and other differences	—	—	—
Changes in scope of consolidation and other changes	—	(13)	(13)
At 31 Dec 2019	883	599	1,482
Accumulated depreciation			
At 1 Jan 2019	(33)	(417)	(450)
Depreciation charge for the year	(3)	(38)	(41)
Disposals	—	7	7
Transfers	(9)	(17)	(26)
Exchange translation differences	—	—	—
Changes in scope of consolidation and other changes	—	3	3
At 31 Dec 2019	(45)	(462)	(507)
Net book value at 31 Dec 2019	838	137	975

1 *It includes EUR 15 million of leasehold land and building for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities. They are therefore presented as owned assets.*

Impairment testing

During 2020, we considered the pervasive macroeconomic deterioration caused by the outbreak of Covid-19, along with the impact on forecast profitability, to be an indicator of impairment. Impairment testing was performed, identifying the value-in-use (recoverable amount) of the CGUs to be below their net carrying value in France.

As a result, EUR 206 million of tangible asset impairments were impaired, primarily right-of-use assets for leased office, commercial and retail branches and fixtures and fittings. The impairments reflect recent losses and deterioration in the future forecasts, substantially relating to prior periods. Refer to Note 20 Goodwill and intangible assets and Note 1.2(n) Summary of significant accounting policies – Impairment of non-financial assets.

22 Trading liabilities

	2020	2019
	€m	€m
Deposits by banks	**—**	—
Customer accounts	**—**	—
Other debt securities in issue	**—**	—
Other liabilities – net short positions in securities	**17,828**	23,262
At 31 Dec	**17,828**	23,262

23 Financial liabilities designated at fair value

	2020	2019
	€m	€m
Deposits by banks and customer accounts	76	86
Liabilities to customers under investment contracts	14	15
Debt securities in issue	16,802	18,852
Subordinated liabilities (Note 26)	—	—
Preferred securities	—	—
At 31 Dec	**16,892**	18,953

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2020 was EUR 921 million for HSBC Continental Europe (at 31 December 2019: EUR 628 million).

At 31 December 2020, the accumulated amount of the change in fair value attributable to changes in credit risk for HSBC Continental Europe was EUR 127 million (at 31 December 2019: EUR 136 million).

In 2020, HSBC Continental Europe recognised a negative variation of EUR (4) million in other comprehensive income in respect of HSBC Continental Europe's own credit risk (at 31 December 2019 EUR (167) million).

24 Accruals, deferred income and other liabilities

	2020	2019
	€m	€m
Accruals and deferred income	764	1,123
Settlement accounts	696	1,782
Cash collateral and margin payables	15,509	11,084
Endorsements and acceptances	7	18
Employee benefit liabilities (Note 5)	175	188
Lease liabilities	420	238
Other liabilities	2,546	2,323
At 31 Dec	**20,117**	16,756

25 Provisions

HSBC Continental Europe recognises a provision when the following three criteria are met:

- existence of a present obligation occurring from a past event;
- it is probable that an outflow of resources will be required to settle the obligation;
- a reliable estimate of the amount can be made.

	Restructuring costs [1]	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2019	22	44	33	99
Additions	278	5	14	297
Amounts utilised	(13)	(5)	(26)	(44)
Unused amounts reversed	(5)	(2)	(7)	(14)
Exchange and other movements[2]	(14)	(1)	—	(15)
At 31 Dec 2020	**268**	**41**	**14**	**323**
Contractual commitments				
At 31 Dec 2019				61
Net change in expected credit loss provisions and other movements				13
At 31 Dec 2020				**74**
Total provisions				
At 31 Dec 2019				160
At 31 Dec 2020				**397**

1 *Includes restructuring provision of EUR 278 million in 2020 (refer Note 1.3).*
2 *Includes amount transferred to Other Liabilities.*

	Restructuring costs	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2018	24	15	12	51
Additions	9	36	35	80
Amounts utilised	(13)	(5)	(9)	(27)
Unused amounts reversed	—	(2)	(7)	(9)
Exchange and other movements	2	—	2	4
At 31 Dec 2019	22	44	33	99
Contractual commitments				
At 31 Dec 2018				24
Net change in expected credit loss provisions and other movements				16
Transfer-in[1]				21
At 31 Dec 2019				61
Total provisions				
At 31 Dec 2018				75
At 31 Dec 2019				160

1 *This amount corresponds to the amount transferred due to the acquisition of certain assets and liabilities of European branches on 1 February 2019 and on 1 March 2019 from HSBC Bank plc.*

Further details of 'Legal proceedings and regulatory matters' regarding the HSBC Group are set out in Note 32.

26 Subordinated liabilities

Subordinated liabilities are initially measured at fair value, which is the consideration received net of directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method to amortise the difference between proceeds net of directly attributable transaction costs and the redemption amount over the expected life of the debt, unless the instruments are designated at fair value.

	2020	2019
	€m	€m
At amortised cost	**1,876**	1,376
Designated at fair value (Note 23)	**—**	—
Total at 31 Dec	**1,876**	1,376

		Book value	
		2020	2019
Tier 2 instruments issued by HSBC Continental Europe		**€m**	€m
EUR 16 million	Undated subordinated variable rate notes	**16**	16
EUR 300 million	Floating rate notes maturing 2027	**300**	300
EUR 300 million	Floating rate notes maturing 2028	**300**	300
EUR 400 million	Floating rate notes maturing 2029	**400**	400
EUR 100 million	Floating rate notes maturing 2029	**100**	100
EUR 260 million	Floating rate notes maturing 2029	**260**	260
EUR 500 million	Floating rate notes maturing 2030	**500**	—
At 31 Dec		**1,876**	1,376

27 Maturity analysis of financial assets, liabilities and off-balance sheet commitments

Contractual maturity of financial liabilities

The balances in the table below do not agree directly with those in the consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives).

Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'On demand' time bucket and not by contractual maturity.

In addition, loans and other credit-related commitments, financial guarantees and similar contracts are generally not recognised on the balance sheet. The undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified on the basis of the earliest date they can be called.

Distribution of cash flows payable by maturity

	Due not more than 1 month	Due over 1 month but not over 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	€m	€m	€m	€m	€m	€m
2020						
Deposits by banks	**6,049**	**3**	**17**	**10,796**	**215**	**17,080**
Customer accounts	**58,540**	**1,411**	**1,266**	**131**	**81**	**61,429**
Repurchase Agreements – non–trading	**10,177**	**803**	**4**	**—**	**—**	**10,984**
Trading liabilities	**17,828**	**—**	**—**	**—**	**—**	**17,828**
Financial liabilities designated at fair value	**126**	**49**	**2,350**	**9,171**	**6,005**	**17,701**
Derivatives	**55,660**	**2**	**—**	**43**	**20**	**55,725**
Debt securities in issue	**0**	**0**	**1,141**	**2,118**	**346**	**3,605**
Subordinated liabilities	**—**	**—**	**—**	**1,886**	**17**	**1,903**
Other financial liabilities	**17,780**	**89**	**374**	**310**	**1,260**	**19,813**
Sub Total	**166,160**	**2,357**	**5,152**	**24,455**	**7,944**	**206,068**
Loan and other credit-related commitments	**99,557**	**—**	**—**	**—**	**—**	**99,557**
Financial guarantees	**1,050**	**—**	**—**	**—**	**—**	**1,050**
Total at 31 Dec 2020	**266,767**	**2,357**	**5,152**	**24,455**	**7,944**	**306,675**
Proportion of cash flows payable in period	**87%**	**1%**	**2%**	**8%**	**2%**	
2019						
Deposits by banks	5,895	257	2,199	3,485	502	12,338
Customer accounts	54,280	1,513	1,734	132	89	57,748
Repurchase Agreements – non–trading	19,349	861	3	—	—	20,213
Trading liabilities	23,262	—	—	—	—	23,262
Financial liabilities designated at fair value	1,035	14	2,209	9,636	7,597	20,491
Derivatives	45,075	—	—	45	17	45,137
Debt securities in issue	368	430	9,003	—	—	9,801
Subordinated liabilities	—	—	—	1,116	277	1,393
Other financial liabilities	14,081	41	648	119	1,295	16,184
Sub Total	163,345	3,116	15,796	14,533	9,777	206,567
Loan and other credit-related commitments	89,693	—	—	—	—	89,693
Financial guarantees	1,209	—	—	—	—	1,209
Total at 31 Dec 2019	254,247	3,116	15,796	14,533	9,777	297,469
Proportion of cash flows payable in period	86%	1%	5%	5%	3%	

Maturity analysis of financial assets and liabilities

The following tables provides an analysis of financial assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- financial assets and liabilities with no contractual maturity (such as equity securities) are included in the ‘Due over five years’ time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the ‘Due over five years’ time bucket;
- financial instruments are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction;
- Liabilities under investment contracts are classified in the 'due less than 5 years' time buckets.

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month €m	Due over 1 month but not more than 3 months €m	Due over 3 months but not more than 6 months €m	Due over 6 months but not more than 9 months €m	Due over 9 months but not more than 1 year €m	Due over 1 year but not more than 2 years €m	Due over 2 years but not more than 5 years €m	Due over 5 years €m	Total €m
Financial assets									
Cash and balances at central banks	29,508	–	–	–	–	–	–	–	29,508
Items in the course of collection from other banks	224	–	–	–	–	–	–	–	224
Trading assets	12,954	–	–	–	–	–	–	–	12,954
Financial assets designated or otherwise mandatorily measured at fair value	–	6	15	124	134	530	204	10,635	11,648
Derivatives	56,457	–	3	–	–	15	–	–	56,475
Loans and advances to banks	3,711	39	230	313	27	2,015	421	25	6,781
Loans and advances to customers	4,922	1,093	5,468	3,538	2,283	6,941	14,972	17,008	56,225
– personal	819	374	529	515	509	1,889	5,208	12,849	22,692
– corporate and commercial	3,785	664	4,720	2,654	1,613	4,375	8,727	3,844	30,382
– financial	318	55	219	369	161	677	1,037	315	3,151
Reverse repurchase agreements – non-trading	12,463	4,396	3,412	391	350	10	500	–	21,522
Financial investments	844	345	797	422	596	1,372	6,432	8,359	19,167
Accrued income and other financial assets	20,017	39	115	7	70	33	70	180	20,531
Total financial assets at 31 Dec 2020	141,100	5,918	10,040	4,795	3,460	10,916	22,599	36,207	235,035
Non-financial assets								2,064	2,064
Total assets at 31 Dec 2020	141,100	5,918	10,040	4,795	3,460	10,916	22,599	38,271	237,099
Off-balance sheet commitments received									
Loan and other credit-related commitments	49,675	–	–	–	–	–	–	–	49,675
Financial liabilities									
Deposits by banks	6,044	2	9	–	9	18	10,907	215	17,204
Customer accounts	58,534	1,411	664	235	367	67	58	57	61,393
– personal	20,554	36	37	29	42	65	55	29	20,847
– corporate and commercial	33,149	1,332	571	206	325	2	3	28	35,616
– financial	4,831	43	56	–	–	–	–	–	4,930
Repurchase agreements – non-trading	10,176	804	2	2	–	–	–	–	10,984
Items in the course of transmission to other banks	198	–	–	–	–	–	–	–	198
Trading liabilities	17,828	–	–	–	–	–	–	–	17,828
Financial liabilities designated at fair value	126	49	145	2,049	155	2,040	6,876	5,452	16,892
– debt securities in issue: covered bonds	–	–	–	–	–	1,011	2,380	–	3,391
– debt securities in issue: unsecured	112	49	136	2,049	155	1,029	4,496	5,385	13,411
– other	14	–	9	–	–	–	–	67	90
Derivatives	55,659	–	–	–	–	–	38	17	55,714
Debt securities in issue	–	–	470	380	291	510	1,608	346	3,605
– covered bonds	–	–	–	–	–	–	–	–	–
– unsecured	–	–	470	380	291	510	1,608	346	3,605
Accruals and other financial liabilities	17,554	104	291	16	90	75	270	1,390	19,790
Subordinated liabilities	–	–	–	–	–	300	1,560	16	1,876
Total financial liabilities at 31 Dec 2020	166,119	2,370	1,581	2,682	912	3,010	21,317	7,493	205,484
Non-financial liabilities								24,156	24,156
Total liabilities at 31 Dec 2020	166,119	2,370	1,581	2,682	912	3,010	21,317	31,649	229,640
Off-balance sheet commitments given									
Loan and other credit-related commitments	99,557	–	–	–	–	–	–	–	99,557
– personal	1,352	–	–	–	–	–	–	–	1,352
– corporate and commercial	42,767	–	–	–	–	–	–	–	42,767
– financial	55,438	–	–	–	–	–	–	–	55,438

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets									
Cash and balances at central banks	19,463	—	—	—	—	—	—	—	19,463
Items in the course of collection from other banks	775	—	—	—	—	—	—	—	775
Trading assets	14,837	—	—	—	—	—	—	—	14,837
Financial assets designated at fair value	19	3	27	64	119	235	790	10,700	11,957
Derivatives	45,721	—	—	—	—	1	1	1	45,724
Loans and advances to banks	3,085	458	465	2	386	2,263	89	50	6,798
Loans and advances to customers	5,619	4,871	2,218	1,461	2,005	6,236	16,924	17,622	56,956
– personal	849	420	524	490	557	1,903	5,176	12,251	22,170
– corporate and commercial	4,503	4,220	1,244	818	1,017	3,237	10,208	4,862	30,109
– financial	267	231	450	153	431	1,096	1,540	509	4,677
Reverse repurchase agreements – non-trading	31,762	5,705	3,415	1,357	3,224	—	510	—	45,973
Financial investments	293	142	943	255	431	2,241	3,538	9,144	16,987
Accrued income and other financial assets	15,004	41	190	5	74	38	71	182	15,605
Financial assets at 31 Dec 2019	136,578	11,220	7,258	3,144	6,239	11,014	21,923	37,699	235,075
Non-financial assets								2,605	2,605
Total assets at 31 Dec 2019	136,578	11,220	7,258	3,144	6,239	11,014	21,923	40,304	237,680
Off-balance sheet commitments received									
Loan and other credit-related commitments	55,707	—	—	—	—	—	—	—	55,707
Financial liabilities									
Deposits by banks	5,834	257	1,532	2	543	611	2,832	502	12,113
Customer accounts	54,279	1,423	1,244	54	369	80	43	58	57,550
– personal	19,100	64	67	33	62	77	40	46	19,489
– corporate and commercial	30,314	1,151	1,125	21	307	3	3	12	32,936
– financial	4,865	208	52	—	—	—	—	—	5,125
Repurchase agreements – non-trading	19,349	861	1	—	2	—	—	—	20,213
Items in the course of transmission to other banks	396	—	—	—	—	—	—	—	396
Trading liabilities	23,262	—	—	—	—	—	—	—	23,262
Financial liabilities designated at fair value	1,025	14	346	250	1,609	2,283	7,084	6,342	18,953
– debt securities in issue: covered bonds	—	—	—	—	1,015	—	2,373	1,032	4,420
– debt securities in issue: unsecured	1,010	14	334	250	594	2,283	4,711	5,236	14,432
– subordinated liabilities and preferred securities	—	—	—	—	—	—	—	—	—
– other	15	—	12	—	—	—	—	74	101
Derivatives	45,053	—	—	—	—	—	45	17	45,115
Debt securities in issue	367	430	1,557	4,154	3,274	—	—	—	9,782
– covered bonds	—	—	—	—	—	—	—	—	—
– unsecured	367	430	1,557	4,154	3,274	—	—	—	9,782
Accruals and other financial liabilities	14,015	30	545	5	98	49	62	1,295	16,099
Subordinated liabilities	—	—	—	—	—	—	1,100	276	1,376
Total financial liabilities at 31 Dec 2019	163,580	3,015	5,225	4,465	5,895	3,023	11,166	8,490	204,859
Non-financial liabilities								24,350	24,350
Total liabilities at 31 Dec 2019	163,580	3,015	5,225	4,465	5,895	3,023	11,166	32,840	229,209
Off-balance sheet commitments given									
Loan and other credit-related commitments	89,693	—	—	—	—	—	—	—	89,693
– personal	1,189	—	—	—	—	—	—	—	1,189
– corporate and commercial	38,218	—	—	—	—	—	—	—	38,218
– financial	50,286	—	—	—	—	—	—	—	50,286

Further information regarding HSBC Continental Europe's liquidity and funding management is available in the Risk Management section pages 132 and following.

28 Offsetting of financial assets and financial liabilities

The 'Amounts not set off in the balance sheet' include transactions where:

- The counterparty has an offsetting exposure with HSBC Continental Europe and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are not otherwise satisfied.
- In the case of derivatives, reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral has been received/pledged.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored, and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right to offset remains appropriate.

Offsetting of financial assets and financial liabilities

		Amounts subject to enforceable netting arrangements								
					Amounts not offset in the balance sheet					
		Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial Instruments	Non-Cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements	Total
	Footnotes	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets										
Derivatives (Note 14)	1	**63,518**	**(7,126)**	**56,392**	**(40,873)**	**(360)**	**(14,969)**	**190**	**83**	**56,475**
Reverse repos, stock borrowing and similar agreements classified as:		**53,855**	**(32,306)**	**21,549**	**(2,638)**	**(18,868)**	**(42)**	**1**	**20**	**21,569**
– trading assets		**27**	**—**	**27**	**—**	**(26)**	**—**	**1**	**—**	**27**
– non-trading assets		**53,828**	**(32,306)**	**21,522**	**(2,638)**	**(18,842)**	**(42)**	**—**	**20**	**21,542**
Loans and advances to customers	2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020		**117,373**	**(39,432)**	**77,941**	**(43,511)**	**(19,228)**	**(15,011)**	**191**	**103**	**78,044**
Derivatives (Note 14)	1	50,683	(5,053)	45,630	(35,172)	(350)	(10,065)	43	94	45,724
Reverse repos, stock borrowing and similar agreements classified as:		100,547	(54,573)	45,974	(9,327)	(36,472)	(174)	1	20	45,994
– trading assets		1	—	1	—	—	—	1	—	1
– non-trading assets		100,546	(54,573)	45,973	(9,327)	(36,472)	(174)	—	20	45,993
Loans and advances to customers	2	55	—	55	—	—	—	55	—	55
At 31 Dec 2019		151,285	(59,626)	91,659	(44,499)	(36,822)	(10,239)	99	114	91,773
Financial Liabilities										
Derivatives (Note 14)	1	**62,742**	**(7,126)**	**55,616**	**(40,873)**	**(1,137)**	**(13,557)**	**49**	**98**	**55,714**
Repos, stock borrowing and similar agreements classified as:		**43,290**	**(32,306)**	**10,984**	**(2,638)**	**(8,113)**	**(232)**	**1**	**—**	**10,984**
– trading liabilities		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– non-trading liabilities		**43,290**	**(32,306)**	**10,984**	**(2,638)**	**(8,113)**	**(232)**	**1**	**—**	**10,984**
Customer accounts excluding repos	3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020		**106,032**	**(39,432)**	**66,600**	**(43,511)**	**(9,250)**	**(13,789)**	**50**	**98**	**66,698**
Derivatives (Note 14)	1	50,082	(5,053)	45,029	(35,172)	(1,385)	(8,436)	36	86	45,115
Repos, stock borrowing and similar agreements classified as:		74,786	(54,573)	20,213	(9,327)	(10,430)	(455)	1	—	20,213
– trading liabilities		—	—	—	—	—	—	—	—	—
– non-trading liabilities		74,786	(54,573)	20,213	(9,327)	(10,430)	(455)	1	—	20,213
Customer accounts excluding repos	3	—	—	—	—	—	—	—	—	—
At 31 Dec 2019		124,868	(59,626)	65,242	(44,499)	(11,815)	(8,891)	37	86	65,328

1 *At 31 December 2020, the amount of cash margin received that had been offset against the gross derivatives assets was EUR 779 million (2019: EUR 198 million). The amount of cash margin paid that had been offset against the gross derivatives liabilities was EUR 1,994 million (2019: EUR 1,750 million).*

2 *At 31 December 2020, the total amount of 'Loans and advances to customers' was EUR 56,225 million (2019: EUR 56,956 million) of which EUR 0 million (2019: EUR 55 million) was subject to offsetting.*

3 *At 31 December 2020, the total amount of 'Customer accounts' was EUR 61,393 million (2019: EUR 57,550 million).*

29 Called up share capital and other equity instruments

Called up share capital and share premium

At 31 December 2020, HSBC Continental Europe's capital amounted to EUR 491 million divided into 98,231,196 ordinary shares with a nominal value of EUR 5, fully paid up.

HSBC Continental Europe ordinary shares of EUR 5 each, issued and fully paid

	2020		2019	
	Number	**€m**	Number	€m
At 1 Jan	**98,231,196**	**491**	73,316,988	367
Shares issued	**—**	**—**	24,914,208	124
At 31 Dec	**98,231,196**	**491**	98,231,196	491

HSBC Continental Europe share premium

	2020	2019
	€m	€m
At 31 Dec	**2,137**	2,137

Total called up share capital and share premium

	2020	2019
	€m	€m
At 31 Dec	**2,628**	2,628

Other equity instruments

Additional tier 1 capital instruments

HSBC Continental Europe’s additional tier 1 capital instruments in issue which are accounted for as equity

			2020	2019
		First call date	**€m**	€m
EUR 200 million	Perpetural Subordinated additional Tier 1 instruments issued in 2017	26/05/2022	**200**	200
EUR 300 million	Perpetural Subordinated additional Tier 1 instruments issued in 2018	28/03/2023	**300**	300
EUR 250 million	Perpetural Subordinated additional Tier 1 instruments issued in 2019	18/12/2024	**250**	250
At 31 Dec			**750**	750

30 Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

(a) Contingent liabilities and commitments

		2020	2019
	Footnote	**€m**	€m
Guarantees and other contingent liabilities:			
– financial guarantees		**1,051**	1,209
– performance and other guarantees		**8,313**	9,256
– other contingent liabilities		**89**	95
At 31 Dec		**9,453**	10,560
Commitments:	*1*		
– documentary credits and short-term trade-related transactions		**669**	1,020
– forward asset purchases and forward deposits placed		**46,975**	44,105
– standby facilities, credit lines and other commitments to lend		**51,912**	44,568
At 31 Dec		**99,556**	89,693

1 *Includes EUR 97,892 million of commitments at 31 December 2020 (2019: EUR 88,422 million), to which the impairment requirements in IFRS 9 are applied where HSBC Continental Europe has become party to an irrevocable commitment.*

The amounts disclosed in the above table reflect HSBC Continental Europe’s maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with HSBC Continental Europe’s overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to HSBC Continental Europe’s annual credit review process. The total of the nominal principal amounts is not representative of future liquidity needs.

(b) Guarantees

HSBC Continental Europe provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the Group. These guarantees are generally provided in the normal course of HSBC Continental Europe's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which HSBC Continental Europe could be required to make at 31 December were as follows:

	2020		2019	
	In favour of third parties	In favour of other HSBC Group entities	In favour of third parties	In favour of other HSBC Group entities
	€m	€m	€m	€m
Guarantee type				
Financial guarantees contracts	**744**	**307**	822	387
Performance and other guarantees	**7,475**	**838**	8,437	914
At 31 Dec	**8,219**	**1,145**	9,259	1,301

Financial guarantees include undertakings to fulfil the obligations of customers or group entities, should the obligated party fail to do so. The inter-company financial guarantees include a specific guarantee related to debt issued by the Group for the benefit of other entities of the group and with respect to regulatory requirements. Financial guarantees also include stand-by letters of credit, which are financial guarantees given irrevocable obligations on the part of HSBC Continental Europe to pay a third party when a customer fails to meet a commitment.

Performance guarantees include performance bonds, direct credit substitutes ,stand-by letters of credit related to particular transactions which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer. Other guarantees includes bid bonds and another transaction-related guarantees which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.

The amounts disclosed in the above table reflect HSBC Continental Europe’s maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with our overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the annual credit review process.

HSBC Continental Europe has no contingent liabilities or commitments in relation to joint ventures or associates, incurred jointly or otherwise.

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to HSBC Continental Europe’s annual credit review process.

When HSBC Continental Europe gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

31 Finance lease receivables

HSBC Continental Europe leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2020			2019		
	Total future minimum payments	Unearned finance income	Present Value	Total future minimum payments	Unearned finance income	Present Value
	€m	€m	€m	€m	€m	€m
Lease receivables						
– No later than one year	**270**	**(18)**	**252**	432	(21)	411
– Later than one year and no later than five years	**876**	**(63)**	**813**	918	(76)	842
– One to two years	***205***	***(19)***	***186***	*209*	*(23)*	*186*
– Two to three years	***204***	***(17)***	***187***	*237*	*(20)*	*217*
– Three to four years	***340***	***(16)***	***324***	*328*	*(18)*	*310*
– Four to five years	***127***	***(11)***	***116***	*144*	*(15)*	*129*
– Later than five years	**670**	**(34)**	**636**	789	(38)	751
Total at 31 Dec	**1,816**	**(115)**	**1,701**	2,139	(135)	2,004

32 Legal proceedings and regulatory matters relating to HSBC group entities generally

HSBC group entities, including HSBC Continental Europe entities, 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 2.19a Legal Risks and Litigation management of the 2020 Registration Document, 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 31 December 2020.

Anti-money laundering and sanctions-related matters

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

HSBC’s engagement with the Skilled Person appointed pursuant to the 2013 Direction was terminated in February 2020 and a new Skilled Person with a narrower mandate has been appointed to assess the remaining areas that require further work in order for HSBC to transition fully to business-as-usual financial crime risk management. A new Independent Consultant is also being appointed to continue to carry out an annual OFAC compliance review at the FRB’s discretion.

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 Dublin DAC prior to the acquisition by HSBC Continental Europe of HTIE, which has been integrated within HSBC Continental Europe in Ireland.

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

Defender case:

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

US litigation:

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

European interbank offered rates investigations

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America (’US‘), the European Union, Italy are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates (‘Euribor’).

HSBC and/or its subsidiaries (including HSBC Continental Europe as a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews.

In December 2016, the European Commission (the 'Commission' or the 'EC') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC Continental Europe. HSBC appealed the decision and, in September 2019, the General Court of the European Union (the 'General Court') issued a decision largely upholding the EC's findings on liability, but annulling the fine. HSBC and the EC have appealed the General Court's decision.

Foreign exchange rate investigations and litigation

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

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

33 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in the United Kingdom.

Copies of the Group financial statements may be obtained from the following address:

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Key Management Personnel

The table below sets out transactions which fall under IAS 24 'Related Party Disclosures' between HSBC Continental Europe and the Key Management Personnel of HSBC Continental Europe and on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

Transactions and balances during the year with Key Management Personnel

	2020			2019		
	Number of persons	**Balance at 31 Dec[2]**	**Highest amounts outstanding during year[2]**	Number of persons	Balance at 31 Dec[2]	Highest amounts outstanding during year[2]
		€k	**€k**		€k	€k
Key Management Personnel [1]						
Advances and credits	**21**	**26,215**	**44,237**	25	34,074	62,996
Guarantees	**21**	**2,275**	**3,495**	25	3,006	3,006
Deposits	**21**	**54,746**	**121,248**	25	61,004	489,617

1 *Includes Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.*
2 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

Compensation to the Key Management Personnel of HSBC Continental Europe under IAS 24 is disclosed as follows:

Compensation of Key Management Personnel

	2020	2019
	€k	€k
Short-term employee benefits	**247**	246
Post-employment benefits	**96**	86
Other long-term employee benefits	**—**	—
Termination benefits	**80**	66
Share-based payments	**1,094**	855
At 31 Dec	**1,517**	1,253

Shareholdings, options and other securities of Key Management Personnel

	2020	2019
Number of options held over HSBC Holdings ordinary shares under employee share plans	**—**	—
Number of HSBC Holdings ordinary shares held beneficially and non-beneficially	**1,340,992**	1,279,204
At 31 Dec	**1,340,992**	1,279,204

The Corporate governance report also includes a detailed description of Directors' remuneration (see page 40 and following).

Transactions with other related parties

There is no significant amount due to joint ventures and associates.

Transactions detailed below include amounts due to/from HSBC Continental Europe and fellow subsidiaries of the HSBC Group.

Transactions and balances during the year with subsidiaries

	2020		2019	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	€m	€m	€m	€m
Assets				
Trading assets	8	8	10	1
Derivatives	22,886	20,420	31,664	17,058
Loans and advances to banks	2,403	1,519	3,897	1,437
Loans and advances to customers	180	124	55	55
Reverse repurchase agreement – non trading	4,865	1,504	5,002	4,550
Financial investments	448	445	457	447
Other assets	6,807	971	6,536	1,681
Prepayments and accrued income	100	49	86	69
Financial asset designated at fair value	385	251	632	257
Liabilities				
Deposits by banks	6,118	1,782	8,031	5,255
Customer accounts	153	101	156	149
Repurchase agreement – non trading	2,773	1,075	7,008	3,585
Trading liabilities	—	—	—	—
Derivatives	23,403	17,752	35,008	17,010
Other liabilities	5,839	3,451	4,325	1,635
Accruals and deferred income	137	101	204	122
Financial liabilities designated at fair value	—	—	—	—
Subordinated liabilities	1,860	1,860	1,360	1,360
Guarantees and commitments	5,153	3,769	7,260	2,819
Income Statement				
Interest income		83		177
Interest expense		89		163
Fee income		155		145
Fee expense		80		103
Gains less losses from financial investments		—		—
Other operating income		93		51
Dividend income		—		—
General and administrative expenses		384		344

34 Events after the balance sheet date

There was no material event subsequent to the reporting date that would require a correction or adjustment to the consolidated financial statements as at 31 December 2020.

New products and services are offered to customers of the HSBC Group in Continental Europe on a regular basis. Information is available on the Group's websites, in particular in the press releases posted at www.hsbc.fr.

There has been no significant change affecting the financial or sales situation of HSBC Continental Europe or its subsidiaries since 31 December 2020 until the Board of Directors of 23 February 2021 which approves these financial statements.

35 HSBC Continental Europe subsidiaries, joint ventures and associates

HSBC Continental Europe classifies investments in entities which it controls as subsidiaries. HSBC Continental Europe consolidation policy is described in Note 1.

Subsidiaries of HSBC Continental Europe

Consolidated companies	Footnotes	Country of incorporation or registration	Consolidation method*	Main line of business	HSBC Continental Europe interest (%) 2020	2019
Retail and Commercial Banking						
HSBC Factoring (France)		France	FC	Financial company	**100.0**	100.0
SAPC Ufipro Recouvrement		France	FC	Service company	**99.9**	99.9
Global Banking and Markets						
Beau Soleil Limited Partnership		Hong Kong	FC	Financial company	**85.0**	85.0
DEM 9		France	FC	Financial company	**100.0**	100.0
DEMPAR 1		France	FC	Financial company	**100.0**	100.0
Elysées Immo Invest	2	France	FC	Financial company	**–**	100.0
Finanpar 7	2	France	FC	Financial company	**–**	100.0
Foncière Elysées		France	FC	Real estate company	**100.0**	100.0
HSBC Leasing (France)		France	FC	Financial company	**100.0**	100.0
HSBC Real Estate Leasing (France)		France	FC	Financial company	**100.0**	100.0
HSBC Services (France)		France	FC	Financial company	**100.0**	100.0
HSBC SFH (France)		France	FC	Financial company	**100.0**	100.0
Euro Secured Notes Issuer (ESNI)	4	France	FC	Financial company	**16.7**	16.7
SAF Baiyun		France	FC	Financial company	**100.0**	100.0
SAF Guangzhou		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi ba		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi er		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi jiu		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi liu		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi qi		France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi wu		France	FC	Financial company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Merger.*
2 *Dissolution without liquidation.*
3 *New entries in perimeter.*
4 *HSBC Continental Europe silo, which is 100%-owned by HSBC Continental Europe and fully consolidated.*
5 *In the process of liquidation.*

Consolidated companies	Footnotes	Country of incorporation or registration	Consolidation method*	Main line of business	HSBC Continental Europe interest (%) 2020	2019
SFM		France	FC	Commercial company	**100.0**	100.0
Sopingest		France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes		France	FC	Financial company	**60.0**	60.0
Thasosfin	1	France	FC	Financial company	**–**	100.0
Somers Dublin – DAC		Ireland	FC	Service company	**100.0**	100.0
Asset Management						
CCF & Partners Asset Management Ltd		United Kingdom	FC	Financial company	**100.0**	100.0
HCM Holdings Ltd	5	United Kingdom	EM	Financial company	**51.0**	51.0
HSBC Epargne Entreprise (France)		France	FC	Financial company	**100.0**	100.0
Services Epargne Entreprise		France	EM	Service company	**14.2**	14.4
HSBC Global Asset Management (France)		France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG		Switzerland	EM	Asset management	**50.0**	50.0
HSBC REIM (France)		France	FC	Asset management	**100.0**	100.0
Insurance						
HSBC Assurances Vie (France)		France	FC	Insurance company	**100.0**	100.0
SCI HSBC Assurances Immo		France	FC	Real estate company	**100.0**	100.0
ERISA Actions Grandes Valeurs		France	FC	Financial company	**100.0**	100.0
OPCVM8 – Erisa Diversifié N2 FCP		France	FC	Financial company	**100.0**	100.0
OPCVM9 – Erisa Opportunités FCP		France	FC	Financial company	**100.0**	100.0
HSBC MIX DYNAMIQUE FCP3DEC		France	FC	Financial company	**59.7**	61.5
HSBC MUL.ASS.ST.FACT.S FCP3DEC		France	FC	Financial company	**100.0**	100.0
HSBC PTF WLD Select.4 A C.3DEC		France	FC	Financial company	**55.7**	54.2
HSBC SELECT DYNAMIC A FCP 2DEC		France	FC	Financial company	**78.1**	74.4
HSBC GIF EMERG.WEALTH A C.3DEC		France	FC	Financial company	**64.1**	64.8
HSBC ACTIONS EUR.C FCP 3DEC		France	FC	Financial company	**57.3**	71.7
HSBC SELECT EQUITY A FCP 4DEC		France	FC	Financial company	**76.7**	70.7
HSBC EURO PROTECT 80 PLUS PART C		France	FC	Financial company	**73.0**	71.1
HSBC PORT-WORLD SEL 5-AHEUR		France	FC	Financial company	**56.0**	54.0
HSBC GLOBAL INVESTMENT FUNDS GEM EQUITY		France	FC	Financial company	**64.8**	54.4
HSBC RESP INVESTMENT FUNDS SRI GLOBAL EQUITY		France	FC	Financial company	**59.3**	53.5
HSBC RESP INVE FD-SRI DYNAMIC PART AC		France	FC	Financial company	**69.2**	66.7
HSBC RESP INVES FUNDS-SRI BALANCED AC		France	FC	Financial company	**97.3**	99.1
HSBC GB Inv -Economic Scale Japan Eq	3	France	FC	Financial company	**64.7**	–
HSBC GLB-US EQUITY IND-ACEUR	3	France	FC	Financial company	**98.4**	–
HSBC OBLIG INFLATION EURO AC	3	France	FC	Financial company	**50.8**	–
Others						
Charterhouse Management Services Limited		United Kingdom	FC	Investment company	**100.0**	100.0
Charterhouse Administrators Ltd		United Kingdom	FC	Investment company	**100.0**	100.0
Keyser Ullmann Ltd		United Kingdom	FC	Investment company	**100.0**	100.0
Société Française et Suisse		France	FC	Investment company	**100.0**	100.0
Flandres Contentieux		France	FC	Service company	**100.0**	100.0
Valeurs Mobilières Elysées		France	FC	Investment company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Merger.*
2 *Dissolution without liquidation.*
3 *New entries in perimeter.*
4 *HSBC Continental Europe silo, which is 100%-owned by HSBC Continental Europe and fully consolidated.*
5 *In the process of liquidation.*

Main changes in the scope of consolidation during 2020

New Entries in Perimeter

HSBC GB Inv -Economic Scale Japan Eq

HSBC GLB-US EQUITY IND-ACEUR

HSBC OBLIG INFLATION EURO AC

Removals

Merger

Thasosfin[1]

Dissolution without liquidation

Elysées Immo Invest

Finanpar 7

1 Thasosfin was merged with HSBC Leasing (France) in December 2020.

Non-consolidated entities

			HSBC Continental Europe interest (%)	
Non Consolidated Companies	Country of incorporation or registration	Reason of non-consolidation	**2020**	2019
SNCB/M6 2007 A	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2007 B	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2008 A	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SAS CYATHEAS PASTEUR	France	Not consolidated in accordance with IFRS 10	**–**	94.9
SNC KEROUAN	France	Not consolidated in accordance with IFRS 10	**–**	99.99
SNC Les MERCURIALES	France	Not consolidated in accordance with IFRS 10	**99.99**	99.99
SNC MAKALA	France	Not consolidated in accordance with IFRS 10	**99.99**	99.99
SNC DORIQUE	France	Not consolidated in accordance with IFRS 10	**99.99**	99.99
GIE GNIFI	France	Not consolidated in accordance with IFRS 10	**25.0**	25.0
CCF Finance Moyen Orient SAL	Lebanon	In the course of liquidation since 2002	**99.9**	99.9
CCF Holding Liban SAL	Lebanon	In the course of liquidation since 2002	**75.0**	75.0

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO Paris Audit & Advisory
43-47 avenue de la Grande Armée
75116 Paris

Statutory Auditors' report on the consolidated financial statements

(For the year ended 31 December 2020)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

HSBC Continental Europe (formerly HSBC France)

38, avenue Kléber

75116 Paris

To the shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of HSBC Continental Europe for the year ended 31 December 2020.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at 31 December 2020 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors, for the period from 1 January 2020 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 1.1 to the consolidated financial statements, which outlines changes in accounting principles such as the early adoption of the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 as from 1 January 2020 taking into account the effects of the interest rate benchmark reform.

Justification of assessments – Key audit matters

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

It is in this complex and evolving context that, in accordance with the requirements of articles L.823 9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

Measurement of the present value of in-force insurance business (PVIF)

Description of risk	How our audit addressed this risk
Present value of in-force insurance business (PVIF) represents the present value of the profits expected to emerge from the book of in-force policies of HSBC Assurance Vie, a subsidiary of HSBC Continental Europe. PVIF is recorded under balance sheet assets in HSBC Continental Europe's consolidated financial statements. PVIF is measured using models that take account of thousands of possible outcomes to project the HSBC Assurances Vie insurance contract book over a defined time horizon based on the effective length of underlying policies. This estimate is based on economic assumptions such as market data (interest rates, equities, macro-economic scenarios, etc.), and non-economic assumptions including mortality, lapse rates and expense rates. These assumptions are determined based on observed historical mortality and lapse rates, and the investment strategies applied for HSBC Assurance Vie customers. PVIF may vary based on revisions to these assumptions as well as changes in regulations and accounting methods, or adjustments to the model. These revisions led the Group to recognise a pre-tax expense of EUR 123 million for the year ended 31 December 2020 (see Note 20 to the consolidated financial statements). Given the sensitivity of pre-tax profit to changes in PVIF, the complexity of the model and the underlying assumptions, we deemed the measurement of present value of in-force insurance business to be a key audit matter.	With the support of our risk modelling experts, we performed the following procedures: • checking the actuarial model used to calculate PVIF in order to assess its appropriateness, notably the overall consistency of any changes or of the lack of any changes in the model with the key assumptions used to determine PVIF. This mainly involved: – gaining an understanding of the model and assessing the consistency of the updated assumptions in relation to past observations and observable data, – analysing the modelling and the changes made to the modelling of economic data with regard to the characteristics of HSBC Assurances Vie investments, the asset allocation policy and market practices, and – analysing changes in PVIF in light of the assumptions used in the model inputs; • testing internal controls deemed to be key to the audit and used by management to: – validate the appropriateness of the data and assumptions used as inputs for the model; – validate the projections and their consistency with the calculated PVIF.

At 31 December 2020, PVIF amounted to EUR 490 million, versus EUR 613 million at 31 December 2019.
See Notes 1.2 and 20 to the consolidated financial statements.

Financial instruments measured at fair value and classified as level 3

Description of risk	How our audit addressed this risk
As part of its activities, HSBC Continental Europe holds financial instruments (assets and liabilities) which are recognised in the balance sheet at fair value, particularly complex derivative financial instruments and private equity funds. Fair value is determined using different approaches, depending on the type and complexity of the instrument. The offsetting entry for the remeasurement of derivative financial instruments at fair value at the reporting date is recognised in profit or loss. The measurement of derivatives may require the use of internally-developed models using unobservable data such as long-term interest rates or volatilities for certain currencies. The measurement of more complex instruments may require several unobservable inputs such as volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices. It also takes account of adjustments for counterparty and liquidity risk. These instruments are classified as level 3 in the fair value hierarchy as defined in IFRS 13. The private equity portfolio is also valued based on unobservable inputs combined with a highly volatile environment due to the Covid-19 crisis, making the determination of the fair value of these financial instruments even more uncertain. Given the multiple inputs subject to management's judgement, we deemed the measurement of these level 3 financial instruments to be a key audit matter for HSBC Continental Europe's consolidated financial statements.	We tested the effectiveness of the controls we deemed key to our audit, put in place by management to record, value and recognise these financial instruments, specifically those regarding: • the independent validation of valuation models by the Independent Model Review – Markets department; • the independent verification of prices and valuations by the Product Control department; • the determination of fair value adjustments ("FVA"); • the determination of fund net asset values. We also sought the support of our risk modelling experts to carry out, on the basis of samples, an independent valuation of level 3 instruments using their own models and market inputs in order to assess the valuations generated by the HSBC internal models. We examined the assumptions, methods and models used by the Bank to estimate the main valuation adjustments (counterparty and liquidity risk) in order to assess their relevance. For the valuation of the private equity portfolio, we also carried out substantive procedures to assess the reliability of fund net asset values

At 31 December 2020, instruments classified as level 3 in the fair value hierarchy represented EUR 3,850 million recognised under assets and EUR 929 million recognised under liabilities.
See Notes 1.2 and 11 to the consolidated financial statements.

Information systems access management

Description of risk	How our audit addresssed this risk
Due to the nature of its activities, HSBC Continental Europe executes a large volume of transactions each day. Transactions are authorised, executed and recorded using complex information systems. The integrity of these systems is a key factor in the reliability of the consolidated financial statements. In previous audits, we identified weaknesses associated with user access rights to operating systems, databases and certain applications contributing directly or indirectly to the preparation of the consolidated financial statements. The weakness of controls relating to access management entails the risk that by omission or error, changes to financial information systems and processed data may not be appropriate. An action plan is currently being implemented by management, seeking to strengthen the control environment for user access rights and helping to mitigate the access management risk. We deemed information systems access management to constitute a key audit matter for the HSBC Continental Europe consolidated financial statements.	User access rights were tested on the applications, operating systems and databases used for the consolidated financial statements and those relevant to our audit. More specifically, our work allowed us to assess whether: • new user access requests to information systems are duly examined and authorised; • user access rights are revoked in a timely manner following the reassignment of personnel or their departure from the Group; • user access rights to applications, operating systems and databases are controlled in a consistent manner; • highly-privileged user access has only been granted to a very limited group of persons who require such access for the performance of their duties; and • controls on outsourced service providers are in place. Other areas were assessed independently, such as password policies and security configurations. An independent assessment was also performed on controls on modifications to applications and databases. We also tested controls intended to ensure that business line users and developers do not have access to applications, operating systems or databases in the production environment. When control weaknesses were identified, additional procedures were carried out: • we analysed the nature of the access where inappropriate access had been identified and, where possible, obtained additional evidence of its legitimacy; • we performed additional tests on specific end-of-year reconciliations (custodians, bank accounts and reconciliation of suspense accounts), as well as requesting confirmations from external counterparties; and • we performed tests on other controls carried out by management, such as performance reviews by business line.

See page 96 of the management report.

Application of IFRS 9 in the calculation of impairment of loans to HSBC Continental Europe business customers

Description of risk	How our audit addressed this risk
The determination of expected credit losses (ECLs) requires management's judgement and the corresponding estimates are subject to a high degree of uncertainty, which grew during the Covid-19 crisis. Management uses multiple assumptions to estimate ECLs. In the course of our audit, we focus on the following main assumptions: risk inputs, the determination of forward-looking economic scenarios and their probability, business customer risk ratings (CRRs) and the recoverability of the loans. These assumptions are used in complex, tailor-made models that are developed using risk inputs based on historical data which, in the current economic environment, generated an inappropriate level of estimated ECLs. With regard to the determination of forward-looking economic scenarios, the Covid-19 crisis triggered unprecedented economic conditions that vary depending on the country and business sector. The support programmes introduced by governments together with the action taken by regulators had an impact on economic factors such as GDP and the unemployment rate. These inputs therefore limited and changed the extent and duration of customer defaults. These factors increased the uncertainty surrounding the estimates used to determine the severity and probability of the impacts of the crisis on macroeconomic variables (MEV) through the different economic scenarios used in the ECL models. Lastly, the customer risk ratings (CRRs) used to determine impairment were adjusted based on quantitative data and qualitative criteria in order to reflect the material increase in credit risk due to the Covid-19 crisis. Accordingly, ECLs were significantly adjusted to take account of these uncertainties. The type and scope of these adjustments, which may or may not be based on models and are determined based on the judgement of the Credit Risk department, vary depending on the business portfolio. Given the Bank's outstanding loan balances, the uncertainty of the assumptions used and the higher degree of judgement exercised by management, within the context of the Covid-19 crisis, to estimate the amount of ECLs, we deemed this to be a key audit matter.	Management has put in place controls designed to ensure the reliability of the calculation of expected credit losses (ECLs). In this context, we tested the controls we deemed key to our audit, in order to assess the relevance of the impairment losses recorded, in particular: • the examination and comparative review of several economic scenarios and their probability by a group of experts and an internal governance committee; • the effectiveness of the credit committees set up to assess and approve the estimated impairment, particularly the judgement exercised by management to determine the adjustments to be applied; • the validation and monitoring of models; • the credit reviews used to determine customer risk ratings for business portfolios; • the entering of critical data in the source systems, as well as the flow and transformation of the data between the source systems and the engine for calculating impairment losses; • the calculation and approval of post-model adjustments and expected credit losses based on the judgement of the Credit Risk department. We called upon our experts to assess the reasonableness of the macro-economic variables forecasts, particularly regarding the estimated probability of various scenarios. They examined the sensitivity of expected credit losses to these assumptions. We also assessed the relevance of the model methodologies that had not changed during the year, notably taking into account Covid-19 and the need to use post-model adjustments. Where expected credit losses were adjusted, we assessed the impairment losses determined by management and the supporting analysis. In addition, we assessed the level of ECLs using a sample of business customer loans, and the relevance of management's judgement, particularly post-model adjustments, the level of customer risk ratings and expert valuations. We also assessed the information on credit risk provided in the consolidated financial statements for the year ended 31 December 2020.

Impairment of loans to Bank customers stood at EUR 904 million at 31 December 2020.
See Note 1.2 to the consolidated financial statements and page 106 of the management report.

Provisions for restructuring and reorganisation

Description of risk	How our audit addressed this risk
HSBC Continental Europe launched several reorganisation projects within its various business lines (Global Banking and Markets – GBM; Commercial Banking – CMB) and its central functions in both France and its branches. Management recorded provisions for restructuring in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 19 "Employee Benefits". The recognition criteria are specific and depend on when the restructuring plan was communicated in the related country, as well as on the labour laws in force in each country (in France and in the countries where its branches are located). The recognition criteria may include an agreement with the trade unions, a notification sent to an employee or a settlement agreement. As certain inputs are subject to management's judgement and given the timetable for recognising the provisions, we deemed provisions for restructuring to be a key audit matter for HSBC Continental Europe's consolidated financial statements.	We examined and assessed the appropriateness of the recognition criteria and the assumptions used by the Bank to determine the provisions recognised in the consolidated financial statements. We tested the effectiveness of the controls we deemed key to our audit, put in place by management to estimate and recognise the provisions. We also called upon our experts to assess the calculation method used. On a sample basis, we verified the consistency of the data used for the measurement of the provisions. We also assessed the information on provisions for restructuring provided in the consolidated financial statements for the year ended 31 December 2020.

At 31 December 2020, provisions for restructuring represented EUR 258 million.
See Note 1.3 to the consolidated financial statements.

Impairment of property, plant and equipment and intangible assets (excluding goodwill)

Description of risk	How our audit addressed this risk
The Covid-19 crisis had a significant impact on the global economy and therefore on the economic performance of HSBC Continental Europe in 2020 and on its forecasts for 2021, which situation management considered to constitute an indication of potential impairment. Management therefore decided to carry out impairment tests on all property, plant and equipment and intangible assets held by HBCE, mainly by comparing the carrying amount of the assets with their recoverable amount. Recoverable amount is estimated using a certain number of assumptions, particularly: • an estimate of future cash flows, long-term growth rates and discount rates, mainly to determine the estimated value in use (VIU) of other intangible assets; • changes in the French real estate office market in the current environment, particularly with more widespread remote working; • the type and location of rented real estate assets. These different assumptions are subject to estimation uncertainty and are mainly based on data from internal and external experts contracted by management, market data and the judgement of management, particularly with regard to the preparation of the budget for 2021-2025 and therefore the forecasts for income, cost savings, growth rates and discount rates. Following the impairment tests, management recognised an impairment loss of EUR 294 million against intangible assets and EUR 206 million against property, plant and equipment. At 31 December 2020, non-impaired intangible (excluding goodwill) and property, plant and equipment amounted to EUR 23 million and EUR 892 million respectively. In light of the above, we deemed the impairment of intangible assets and property, plant and equipment to be a key audit matter for HSBC Continental Europe's consolidated financial statements.	We called upon valuation (particularly real estate) and accounting standards experts in our network to verify the relevance and appropriateness of the methods used to calculate the recoverable amount of intangible assets and property, plant and equipment. We verified the calculations performed by management. With regard to the main assumptions used in the models, we: • discussed the relevance of the budget prepared by management, in particular given the economic environment; • assessed, with the help of our valuation experts, the assumptions used by management to determine the impairment to be recognised against property, plant and equipment; • assessed the sensitivity of the estimated value in use of intangible assets to the different assumptions used, particularly the discount rate. We also assessed the information on property, plant and equipment and intangible assets provided in the consolidated financial statements for the year ended 31 December 2020.

See Notes 1.3, 20 and 21 to the consolidated financial statements.

Specific verifications

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

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

We attest that the Group management report includes the consolidated non-financial information statement required under article L.225-102-1 of the French Commercial Code. However, in accordance with article L.823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the financial statements to be included in the annual financial report

Pursuant to paragraph III of article 222-3 of the AMF's General Regulations, the Company's management informed us of its decision to postpone the application of the single electronic reporting format, as defined by European Delegated Regulation No. 2019/815 of 17 December 2018, to reporting periods beginning on or after 1 January 2021. Accordingly, this report does not contain a conclusion on the compliance of the presentation of the consolidated financial statements to be included in the annual financial report referred to in paragraph I of article L.451-1-2 of the French Monetary and Financial Code *(Code monétaire et financier)* with this format.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC Continental Europe by the Annual General Meetings held on 23 April 2015 for PricewaterhouseCoopers Audit and on 10 May 2007 for BDO Paris Audit & Advisory.

At 31 December 2020, PricewaterhouseCoopers Audit and BDO Paris Audit & Advisory were in the sixth and thirteenth consecutive year of their engagement, respectively.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit.

They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris, 24 February 2021

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO Paris Audit & Advisory**
Agnès Hussherr	Michel Léger
Partner	Partner

Parent company financial statements

Notes on the parent company financial statements

Profit and loss accounts 2020–2019

(in millions of euros)	Notes	31 Dec 2020	31 Dec 2019
Income/(Expenses)			
Interest and similar income	23	**1,935**	1,989
Interest and similar expenses	23	**(1,400)**	(1,321)
Finance leases income		**176**	194
Finance leases expenses		**(194)**	(190)
Income from equities and other variable income securities	24	**26**	50
Commissions received	25	**993**	952
Commissions paid	25	**(205)**	(239)
Gains and losses on trading securities	26	**188**	241
Gains or losses on available-for-sale securities	27	**96**	39
Other banking operating income		**139**	96
Other banking operating expenses		**(18)**	(18)
Net banking operating income		**1,736**	1,793
General operating expenses	28	**(2,007)**	(1,703)
Depreciation, amortisation and impairment of fixed assets		**(486)**	(159)
Gross operating income		**(757)**	(69)
Loan impairment charges	8	**(211)**	(133)
Net operating income		**(968)**	(202)
Gains or losses on disposals of long-term investments	29	**73**	(8)
Profit/(loss) before tax		**(895)**	(210)
Exceptional items		**100**	
Income tax and deferred tax	30	**(111)**	63
Gains and losses from regulated provisions		**—**	—
Net profit/(loss) for the period		**(906)**	(147)

Balance sheet 2020–2019

Assets

(in millions of euros)	Notes	31 Dec 2020	31 Dec 2019
Cash and amounts due from central banks and post office banks		**4,970**	4,683
Treasury bills and money-market instruments[2]	4	**20,700**	20,574
Loans and advances to banks[3]	2	**42,138**	96,318
Loans and advances to customers[4]	3	**64,100**	82,094
Bonds and other fixed income securities[2]	4	**4,420**	5,628
Equities and other variable income securities	4	**158**	244
Investments in subsidiaries and equity securities held for long term	5	**85**	86
Interests in affiliated parties	5	**1,359**	1,353
Finance leases	7	**448**	522
Intangible fixed assets	6	**42**	347
Tangible fixed assets	7	**79**	181
Other assets	9	**33,261**	26,201
Prepayments and accrued income	10	**54,134**	42,528
Total assets		**225,894**	280,759
Off-balance sheet items			
Financing commitments given	21	**47,223**	40,093
Guarantees and endorsements given	21	**9,695**	10,398
Securities commitments (other commitments given)		**47,328**	51,881

Liabilities

(in millions of euros)	Notes	31 Dec 2020	31 Dec 2019
Central bank and post office banks		**13**	39
Deposit due to credit institutions[4]	11	**28,896**	82,458
Customer accounts[3]	12	**63,319**	67,474
Debt securities in issue	13	**17,319**	24,805
Other liabilities[2]	15	**53,455**	54,089
Accruals and deferred income	16	**53,704**	42,493
Provisions for liabilities and charges	14	**593**	400
Subordinated liabilities	17	**2,629**	2,128
Share capital	18	**491**	491
Additional paid-in capital	19	**2,155**	2,158
Equity	19	**1,041**	1,041
Special tax-allowable reserves	19	**—**	—
Retained earnings[1]	19	**3,185**	3,330
Net profit (loss) for the period	19	**(906)**	(147)
Interim dividend	19	**—**	—
Total liabilities		**225,894**	280,759
Off-balance sheet items			
Financing commitments received	21	**3,324**	5,479
Guarantees and endorsements received	21	**17,931**	16,692
Securities commitments (other commitments received)		**47,908**	46,293

1 *Before proposed allocation submitted to Annual General Meeting's approval.*
2 *After the application of offsetting for assets and liabilities arising from securities borrowing transactions. Refer to Note 1, Note 4 and Note 15.*
3 *After the application of offsetting of repurchase and reverse repurchase agreements, and regulated savings accounts against balances centralized at the* Caisse des Dépôts et Consignation*. Refer to Note 1, Note 2 and Note 12.*
4 *After the application of offsetting of repurchase and reverse repurchase agreements. Refer to Note 1, Note 3 and Note 11.*

Statement of reported net profit and movements in shareholders' funds

(in millions of euros)	31 Dec 2020	31 Dec 2019
Net profit/(loss) for the period		
Total	**(906)**	(145)
– per share (in euros)[1]	**(9)**	(1)
Movements in shareholders' funds (excluding the net profit of 2020) (after allocation of 2019 net profit)		
– change in revaluation difference	**—**	—
– transfer to reserves and change in retained earnings	**(145)**	78
– allocation of net profit for the previous year	**(145)**	78
– appropriation of net profit	**—**	—
– change in revaluation reserve and special tax-allowable reserves	**—**	—
Change in shareholders' funds	**(145)**	78
– per share (in euros)[1]	**(1)**	1
Proposed dividend		—
– total	**—**	—
– per share (in euros)[1]	**—**	—

1 *Number of shares outstanding at year end: 98,231,196 in 2020 and 98,231,196 in 2019.*

2020 Highlights

Business review

Net banking operating income was EUR 1,736 million, down EUR 57 million compared to 2019. This decrease is due to the degradation of economic and financial conditions, while the persistence of a low interest rates environment continued to impact the net interest income.

General operating expenses were to EUR 2,007 million, up EUR 304 million compared to the previous year. This increase is mainly driven by restructuring costs of for EUR 258 million and a EUR 49 million increase of the Single Resolution Fund contribution.

Depreciation, amortisation and impairment of tangible and intangible assets was EUR 486 million, up EUR 327 million compared to 2019, reflecting recent losses and deterioriation in the future forecast.

Loan impairment charges were EUR 211 million up from EUR 133 million in 2019. This increase in all global businesses, is mainly explained by incremental charges on non-performing loans linked to the global impact of the Covid-19 outbreak and on the deteriorated forward economic outlook.

Gains on disposals of long-term investments were EUR 73 million compared to a loss of EUR 8 million in 2019, primarily due to the sale of Visa shares.

Net loss for the period was EUR 906 million compared to a net loss of EUR 147 million in 2019.

At 31 December 2020, the **total balance sheet** of HSBC Continental Europe amounted to EUR 226 billion compared to EUR 281 billion at 31 December 2019.

Change of name and new headquarters

On 1 December 2020, HSBC France has changed its name to become HSBC Continental Europe. The new name better reflects the purpose and nature of its activities, namely an integrated Continental European bank connecting our customers to HSBC's global network, and providing access to Continental Europe for HSBC's customers around the world. The new headquarters for HSBC Continental Europe is located at 38 avenue Kléber, 75116 Paris, France.

Impairment and write-off of intangible and tangible assets

During 2020, the HSBC Group considered the pervasive macroeconomic deterioration caused by the outbreak of Covid-19, along with the impact on forecast profitability, to be an indicator of impairment. As a result, an impairment test was performed which led to the recognition of EUR 400 million in non-financial asset impairments, of which capitalised software impairments and write-offs of EUR 308 million and EUR 92 million in tangible asset impairments. This impairment reflected recent losses and deterioration in the future forecasts, substantially relating to prior periods. Refer to Note 1.a for related accounting policies and judgments, Note 6 intangible assets and Note 7 tangible assets.

Recognition of restructuring costs

In line with the Group's Business Update announced in February 2020, HSBC Continental Europe has initiated its own transformation programme during the year. In July, a social plan *('Plan de Sauvegarde pour l'Emploi')* was presented for the GBM business in France. Its objective is to preserve the bank's future competitiveness and to focus on our strategic positioning while reducing the size of the GBM business in France.

In October, a plan was presented to the European Work Council ('EWC') focused on the European Economic Area ('EEA') branches of HSBC Continental Europe. The plan foresees increasing client-focused activities within the branches and to deliver a more efficient operating and booking model, better leveraging HSBC Continental Europe's wider operating infrastructure and balance sheet.

Implementation of the plan is undertaken in accordance with the respective legal and social frameworks in each of the countries.

In December, a plan for collective voluntary departure *('Rupture Conventionelle Collective')* was presented focused on the CMB business and Global Functions and HSBC Operations, Services and Technology. This initiative will enable us to better serve commercial banking clients while focusing on clients valuing our international network. It will also improve operational efficiency and simplify processes.

During 2020, HSBC Continental Europe recognised EUR 258 million on termination benefits for restructuring costs relating to these plans. Refer to Note 14 Provisions.

Derecognition of Deferred Tax Assets ('DTAs')

Considering the recent losses incurred and the wider context of uncertainty, it was judged that the net deferred tax asset ('DTA') should be written off and no further net DTA should be recognised. Recognition will be reassessed at each balance sheet date. Refer to Note 30 Tax expense and deferred tax.

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

In June 2020, HSBC Continental Europe repaid EUR 2.6 billion in TLTRO II funding and issued EUR 10.6 billion in TLTRO III funding. Borrowing rates for TLTRO III are at below-market rates as they are issued at, or below, the deposit facility rate. Borrowing rates in these operations can be as low as 50 basis points below the average interest rate on the deposit facility rate over the period 24 June 2020 to 23 June 2022, capped at -1 per cent, and as low as the interest rate on the deposit facility during the rest of the life of the respective TLTRO III, if the entity's benchmark lending is maintained at a prescribed level over specific periods. During 2020, HSBC Continental Europe judged there to be reasonable assurance that the conditions attached to TLTRO III will be complied with and that the below market rate foreseen in the first twelve months will be received.

Granting of Pret Garanti par l'Etat ('PGE') loans

In March 2020, the French authorities introduced a state guarantee scheme *(Prêt Garanti par l'Etat)* under which the French State will guarantee up to EUR 300 billion of new loans granted to French businesses to help mitigate the economic impact of the Covid-19 pandemic. During 2020, loans granted under this government support scheme in France amounted to EUR 4.4 billion.

Repayments and new issuances

In May 2020, HSBC Continental Europe has issued a subordinated debt of Tier 2 capital for EUR 500 million by issuing a subordinated loan with a maturity of 10 years subscribed by HSBC Bank plc, recognised as subordinated liabilities.

In December 2020, HSBC Continental Europe repaid three unsecured loans granted by HSBC Bank plc for a total notional amount of EUR 2.3 billion, recognised as deposits by banks and issued five series of senior non preferred notes with maturities ranging from three to seven years for a total notional amount of EUR 2.3 billion subscribed by HSBC Bank plc, recognised as debt securities in issue.

Regulations and accounting policies adopted in 2020

Following the amendment of Regulation n°2014-07 of 26 November 2014 that took place on 22 December 2020 via Regulation n°2020-10 and the adoption of a voluntary change in accounting policy enabling offsetting, HSBC Continental Europe applied offsetting of EUR 32.3 billion for repurchase and reverse repurchase agreements, EUR 4.6 billion for securities borrowing and EUR 1.7 billion for regulated savings at 31 December 2020. Refer to Note 1.

1 Principal accounting policies

HSBC Holding plc whose head office is located in London, is responsible for consolidated financial statements. HSBC Continental Europe is part of it, and is responsible for consolidated financial statements in the France perimeter. The head office of HSBC Continental Europe is located in Paris. These consolidated financial statements are available on the website 'www.hsbc.fr' or 'www.hsbc.com'.

The financial statements of HSBC Continental Europe are prepared in accordance with Regulations 2014-03 and 2014-07.

Regulations and accounting policies adopted in 2020

On 22 December 2020, the National Standard Setter adopted Regulation n°2020-10 as an amendment to 'Regulation n°2014-07 of 26 November 2014 relating to the accounts of companies in the banking sector'. Following these amendments, HSBC Continental Europe has applied offsetting for securities borrowing and regulated saving accounts centralised at the *Caisse des Dépôts et Consignations*. In addition, in 2020 HSBC Continental Europe adopted a voluntary change in accounting policy enabling offsetting to be applied where it has been established that reciprocal obligations are settled on a net basis with the same counterparty, currency and maturity date, and where agreements are in place for which the right of offset can be exercised.

(a) Initial recognition and subsequent measurement of tangible and intangible assets

HSBC Continental Europe applies the component approach in the recording and amortising of fixed assets.

HSBC Continental Europe complies with ANC Regulation 2014 03 and in particular with articles 214 1 to 214 27 for initial recognition, amortisation and impairment of tangible assets.

Investment property and operational building

For operating and investment fixed assets, HSBC Continental Europe adopted the components approach with the following minimum cap on the useful lives and methods of the corresponding components:

Components	Periods and depreciation and amortisation methods
Infrastructure	
Building	25 and 50 years on a straight-line basis
Civil engineering works	25 years on a straight-line basis
Technical installations	
Air conditioning Ventilation Heating	10 years on a straight-line basis
Electrical installations	10 years on a straight-line basis
Telephone and electrical fittings	10 years on a straight-line basis
Security fittings	10 years on a straight-line basis
Fittings	
Improvements and internal fittings	10 years on a straight-line basis

Goodwill

Acquired goodwill is subject to impairment on the basis of objective indicators.

Goodwill on merger

The goodwill is affected under the terms provided in accordance with the article 745-6 of regulation 2014-03 to the different concerned assets, and recorded in the accounts under the rules set down in the article 745-7.

The goodwill is amortised or reported in the income statement, under the same rules and conditions as underlying assets to which it is assigned. (See Note 6).

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned:

Components	Periods and depreciation and amortisation methods
Office equipment	5 years, reducing or straight-line basis
Furniture	5 to 10 years, reducing or straight-line basis
IT hardware	3 to 7 years, reducing or straight-line basis
Software	3, 5 or 10 years, straight-line basis

Assets held under finance lease

The assets held under the leasing activity are recognised in accordance with the accounting rules defined by the notice n° 2006-C of 4 October 2016 issued by the Emergencies Committee, linked to the interpretation of the advisory opinion n° 2004-15 du 23 June 2004 of CNC, relating to the definition, recognition and valuation of assets excluding from individual company accounts lease contracts according to IAS 17 within the scope of articles 211-1 to 224-4 from the regulation n° 2014 of ANC.

Assets held under leasing activity are amortised by using the straight-line method, over the actual duration of use but not exceeding the duration of the rental contract.

The amortisation periods are as follows:

- furniture and office equipment: 5 years;
- computer equipment: 3 years;
- tools and equipment: 5 to 7 years.

Depreciation and amortisation of fixed assets leased under finance leases are recognised as an expense on finance lease.

In the financial accounting, the outstanding financial contracts is substituted to the net leased fixed-assets. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the gross unearned finance income.

(b) Securities portfolio

Securities transactions are recognised in accordance with the principles set out in articles 2311-1 to 2391-1 of 2014-07 ANC regulation.

Securities are categorised as follows:

- trading account securities;
- available-for-sale securities;
- held-to-maturity securities;
- portfolio activity securities;
- other long-term securities;
- interests in subsidiaries and associates.

Securities are recognised on the balance sheet at the date of settlement.

Trading securities

Trading securities are negotiable securities traded on an active market, originally acquired or sold with the intention of reselling or buying back within short timescale and are held for market activities or form part of a global portfolio trading management.

On the date of acquisition, Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at the market price, and changes in value are recognised through profit or loss.

Available for sale securities

Other investment securities are those securities not treated as trading account securities, neither portfolio activity securities nor as securities covered by articles 2351-1, 2351-2 and 2351-3 of 2014-07 ANC regulation. These are acquired for the purposes of income and liable to be resold within a relatively short timescale.

On the date of acquisition, they are recorded at cost price (excluding accrued income for fixed-income securities).

At the closing of the period, available-for-sale securities are valued individually at the lowest of their cost price or market value.

Unrealised losses give rise to the recognition of an impairment.

Investment securities

Fixed-income securities that were acquired for holding long term, and in principle till maturity, are categorised as held-to-maturity securities.

Portfolio activity securities are recognised on the date of acquisition at their purchase price.

Held-to-maturity securities are valued at historical cost.

Where the acquisition price of fixed income securities is greater than their redemption value, the difference is amortised over the residual life of the securities.

At the closing date, unrealised losses arising from the difference between the book value, adjusted for amortisation and reversal of differences described above, and the price of fixed income securities are not subject to the impairment, except if there is a strong probability that the institution will not keep the securities until the maturity because a number of new circumstances and without depreciation prejudice to establish in application of the Title 2 terms from the book II of current regulation, dealing with credit risk on securities, if there is any existence of the issuer's defaulted risk.

Unrealised gains are not recognised.

Portfolio activity securities

This category covers investments made under normal arrangements with the sole objective of making medium-term capital gains without intention of investing in the long-term in the business of the issuing entity, nor of taking an active part in the management of its operations. This is particularly the case for securities held in venture capital businesses.

Portfolio activity securities are recognised individually at the lower of their historical cost or value-in-use, determined with regard to the issuer's general prospects and the anticipated holding period.

Other long-term securities

'Other long-term securities' are equity shares and similar securities that HSBC Continental Europe intends to hold long term to derive a satisfactory return within an undefined period of time, without however taking any part in managing the businesses in which the shares are held, but with the intention of fostering long-term business relationships by creating a special link with the issuing companies. These securities are recorded individually at the lowest of their acquisition value or their value-in-use.

The methods for assessing value-in-use are explained in next section.

Interests in subsidiaries and associates

The heading 'Interests in subsidiaries and associates' regroups securities held long-term (equity interests) and holdings in subsidiaries (shares in group companies).

Interests in subsidiaries and associates are valued individually at the lowest of their cost and their value-in-use, as determined below.

The assessment of the value-in-use of portfolio activity securities, other long term securities and interests in subsidiaries and associates is carried out using a comprehensive approach based on the combination of a number of criteria:

- economic and financial assessment of the company based mainly on the value of its revalued net assets;
- market appraisal based on research by financial analysts;
- in the evolution of stock market prices for listed companies and for interests in subsidiaries and associates consideration of the specific relationships that may exist between HSBC Continental Europe and each of the companies involved.

Recognition of gains and losses

Gains or losses on trading securities are recorded under the heading 'Dealing profits'.

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading 'Gains or losses on available-for-sale securities'.

Concerning the other securities, gains or losses on sale and impairment charges are recognised under the heading 'Gains or losses on disposals of long-term investments' in the income statement.

Sale and repurchase agreements

Stock lending or temporary acquisition, governed for legal purposes by law no. 93-1444 of 31 December 1993, amended by law no. 2003-1311 of 30 December 2003, referred to as stock repurchase agreements, have no impact on the composition and valuation of the securities portfolio. For accounting purposes, in accordance with article 2411-1 to 2412-4 of 2014-07 ANC regulation, they are considered as financing transactions, cash movement balanced entries are recognised either as a loan or a deposit. Related income and expenses are recognised as interest.

Repurchase and reverse repurchase agreements

Repurchase transactions that do not fall within the scope of law no. 93-1444 are categorised under this heading in the balance sheet. Their treatment for accounting purposes is similar to that described above for securities under sale and repurchase agreements.

A similar treatment is applied to:

– 'Buy and sell back' and 'Sell and buy back' transactions.

– Loans/borrowing of securities guaranteed by cash deposits.

In accordance with the voluntary change in accounting policy adopted in 2020, repurchase and reverse repurchase agreements are presented on a net basis.

Securities lending and borrowing

Securities lending and borrowing transactions are recognised in accordance with the principles set out in the article 2361-2 of 2014-07 ANC regulation.

In accordance with the provisions of Regulation 2020-10, securities borrowed are presented net of the corresponding liabilities.

(c) Loans and advances

Loans assessed individually

Non-performing and impaired loans

Non-performing loans and impaired loans are recorded in accordance with the article 2222-1 of 2014-07 ANC regulation.

Non-performing loans include all types of receivables, including secured receivables (for which the bank held a collateral), for which there is a risk that the bank will not recover in full or in part the contractual cash flows.

Loans and receivables are classified according to HSBC Continental Europe's internal loan rating system. Performing loans have a rating of between 1 and 8, non-performing loans have a rating of 9 and impaired loans, including doubtful loans not yet written off, have a rating of 10.

The following are therefore classified as non-performing loans:

- receivables overdue for more than three months for all types of loans and equipment leases, more than six months for property loans or leases and more than nine months for loans to local government bodies;
- receivables having risk criteria;
- receivables deriving from debt restructuring for which the debtor is again in default.

HSBC Continental Europe applies the provisions of articles 2221-2 of 2014-07 ANC regulation on identifying overdrafts at risk of default. For overdrafts, the overdue period starts when:

- the debtor exceeds an authorised limit that has been notified to him by HSBC Continental Europe; or
- the debtor is notified that the amount outstanding exceeds a limit set up by HSBC Continental Europe under its internal control system; or
- the debtor withdraws amounts without overdraft authorisation.

The downgrade to non-performing loans immediately leads to all amounts outstanding and commitments for that debtor that are in the same category, according to contagion principle and, if applicable, the downgrade of counterparties belonging to the same group to non-performing debtors, on a case-by-case assessment.

In application of the article 2221-8, 2231-3 of 2014-07 ANC regulation on accounting treatment at credit risk, HSBC Continental Europe has introduced a specific system for dealing with restructured debt and impaired loan.

In application of the articles 2221-8 of 2014-07 ANC regulation, impaired loans are those for which the prospect of recovery is very remote and for which a write-off is being considered. These include receivables which are long overdue or for which the contract has been terminated in case of leasing, and also receivables that have been categorised as non-performing for more than one year, unless final write-off is not being considered because of information on the prospects for recovery available at that stage. Interests on impaired loans are not recognised through profit or loss until the date of actual payment.

Reclassification into performing loans

In application of the article 2221-5 of the 2014-07 ANC regulation, a loan that has been classified as non-performing may be reclassified as performing when the original scheduled payments have been resumed without further incident.

In the case of restructured loans, the classification of doubtful exposure can be omitted, if the exposure complies firstly with the previous condition, and, on the other hand, the counterparty risk is lifted.

Risk mitigation instruments

The bank uses the customary risk mitigation instruments including guarantees and collateral (which is re-measured at least annually depending on its nature) and, to a minor extent, the purchase of credit default swaps ('CDS'). In this latter case, the risk mitigation impact is only recognised if the CDS meets the relevant regulatory conditions for recognition (term, currency, etc.).

Recognition of gains and losses

Charges for impairment against non-performing and impaired loans, included in the calculation of the banking result, are determined annually on the basis of the non recovery risk assessment by analysing each loan individually. In application of the article 2231-1 of the 2014-07 ANC regulation, impairment of non-performing and impaired loans has been calculated on the basis of the difference between the net present value of expected future recoveries and the carrying amount of the loan. Impairment may not be less than the amount of unpaid, recognised interest on the loan.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on amortised receivables are recognised in the 'Loan impairment charges' line.

Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis. Impairment is assessed individually.

Discount on restructured debt

In application of articles 2221-5 and 2231-3 of the 2014-07 ANC regulation, HSBC Continental Europe applies a specific system for dealing with restructured debt.

On restructuring, any waived principal and interest, accrued or due, is written off.

Moreover, at the time of restructuring, a discount is provided for on the restructured debt for the difference between the present value of initially anticipated contractual cash flows and the present value of future cash flows of principal and interest arising from the restructuring plan. The discount rate used is the original effective interest rate for fixed interest loans, or the most recent effective rate before the restructuring calculated in accordance with contractual terms for floating-rate loans.

This discount is recognised in the net cost of risk on restructuring and is then written back through net interest income over the remaining period.

Application of the effective interest rate

All liabilities are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

(d) Due to credit institutions and customer accounts

All liabilities towards banks and customers are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

(e) Debt securities in issue

Debt securities are classified according to their nature: deposit certificates, bonds and similar securities, except subordinated securities, which are recorded under subordinated debt.

Accrued unpaid interest on these securities is recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

Premiums or discounts related to bonds in issue are amortised on an actuarial basis over the life of the bond. Related fees are recognised over the life of the bond on a straight-line basis.

(f) Provisions

In accordance with the article 3222 of 2014-03 ANC regulation, provisions are registered where it is probable that an outflow of resources, without an at least equivalent inflow being expected from the beneficiary (whether known or not), will be required to extinguish a legal or implicit obligation arising from past events and where the amount of the obligation can be reliably estimated.

Retirement and other benefit liabilities

HSBC Continental Europe has opted to adopt ANC recommendation 2013-02 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC Continental Europe provides some of its employees post-employment benefits such as pension plans and end of service benefits.

The costs recognised for funding these defined-benefit plans are determined using the projected unit credit method, with annual actuarial valuations being performed on each plan.

Actuarial gains or losses are recognised immediately through profit or loss.

The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are recognised as operating expenses.

The net defined-benefit liability recognised in the balance sheet represents the present value of the defined-benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of the scheme's assets. Any resulting asset from this is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined-contribution plans and state-managed retirement benefit plans, where HSBC Continental Europe's obligations under the plans are equivalent to a defined-contribution plan, are charged as an expense as they fall due.

Provisions for French PEL and CEL home ownership plans and accounts

Home ownership accounts ('CEL') and home ownership plans ('PEL') are special financial instruments introduced by law no. 65-554 of 10 July 1965. They combine a savings phase and a lending phase which are inextricably linked, the lending phase being contingent to the savings phase.

In accordance with articles 2621-1 to 2624-2 of 2014-07 ANC regulation on the accounting treatment of CEL and PEL home ownership plans and accounts with banks and institutions authorised to receive home ownership funds and to grant home ownership loans, HSBC Continental Europe has provisioned against the adverse consequences of PEL/CEL commitments in its individual company accounts.

PEL commitments are measured by series, without any offset between series. CEL commitments are considered as one single series, distinct from the PEL series.

Provisions for the adverse consequences of these commitments are calculated using a model which takes into account:

- an estimate of future customer savings and credit behaviour, based on historical data;
- the value of various market parameters, particularly interest rates and volatility, determined from data available at the date of assessment.

Provision for share-based payments

HSBC Group share plan

Share-based payments are payments based on shares issued by HSBC Holdings Plc.

HSBC Continental Europe employees have the following advantages:

- From 2006, HSBC Holding Plc implemented share plans on HSBC Holding Plc shares.
- Employees can subscribe to HSBC Holdings Plc shares within the employee share ownership plan.

Shares plan

HSBC Continental Europe grants bonus share plans to these employees for services rendered.

The expense is recognised in the income statement on the period between the granted date and the acquisition date.

The cancellation of expense may result due to the inability to meet acquisition conditions during the period of acquisition.

The amount recorded in the income statement corresponds to the shares finally acquired by the employees.

(g) Foreign exchange position

Foreign currency exchange positions (asset and/or liabilities) are remeasured at the end of period prevailing rate, with the corresponding gains or losses recognised in the bank operating income or expense.

(h) Forward foreign exchange contracts

Unsettled Forward exchange contracts at the closing of the period hedged by a corresponding spot transactions are valued at the period end spot rate. Differences between spot and forward rates are recorded on a time-apportioned basis in the income statement. Outright forward exchange contracts and those hedged by forward instruments are restated at the rate for the remaining period.

(i) Financial derivatives

The HSBC Continental Europe group operates on all financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

Interest rate and currency options

Options are contracts reached between two parties by which one, the buyer, is granted the right to buy or to sell an actual asset or another financial instrument called an 'underlying asset' at the expiry of a certain time period, at a price agreed at the time the contract was concluded.

Option contracts result in a premium being paid by the buyer to the seller. HSBC Continental Europe has interest rate and currency options.

The basic accounting treatment principles for these various products are identical.

On closing out the contract, the notional amount of the 'underlying asset', which is the subject of the option, is recorded as an off-balance sheet item.

For income and expenses, a distinction is made between contracts for hedging, contracts entered into for market operations or for arbitration purposes:

- the income and expenditure on hedging operations is reported symmetrically to the income and expenditure of the item being hedged;
- for market transactions, the positions are revalued at each period end. For transactions quoted on an organised or similar market within the meaning of Articles 2511-1 to 2516-1 of Book II – Title 5 – Section 1 relating to the recognition of interest rate futures, Regulation No. 2014 -07 of the ANC, changes in the value of positions are recognised through profit or loss, either by means of margin calls, or directly by means of a mathematical calculation where the options are not quoted.

Interest-rate futures (tradable futures)

The accounting treatment is identical to that set out above for options.

Currency swaps and/or interest rates (swaps, FRAs)

Currency and/or interest rate swaps are recognised in accordance with the articles 2521-1 and 2529-1 of the 2014-07 ANC regulation.

The contracts are recorded separately depending whether their purpose is to:

- hold stand-alone open positions to take advantage of any beneficial changes in interest rates;
- hedge, demonstrably from the outset, in accordance with the above-mentioned article 4 of CRBF regulation 88-02 as amended, interest-rate risk affecting an item or a group of similar items or credit risk in the case of Credit Default Swaps ('CDS');
- hedge and manage the entity's overall interest rate risk on assets, liabilities and off-balance sheet items;
- provide for specialist investment management of trading portfolios (trading business).

On the accounting side, methodology varies depending on whether the transactions are for hedging or trading business purposes.

The results of the hedging of assets or liabilities are recorded pro rata *temporis*. This is particularly the case for swaps traded as part of the asset / liability management of overall interest rate risk.

Income on positions managed as part of a trading portfolio of swaps is recognised at market value after a reduction to reflect counterparty risk and future management expense.

The notionals are recorded as off-balance-sheet items.

Counterparty risk on derivatives

The fair value of contracts has to take into account counterparty risk linked to contracts.

The adjustment to value for counterparty risk is at least equal to the cost in equity determined under the terms of articles 2525-3 of 2014-07 ANC regulation.

(j) Deferred taxation

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

(k) Segment reporting

This information is not available on the parent company accounts but details are given on a consolidated basis page 12 and following of the management report.

2 Loans and advances to banks

Breakdown of outstanding loans by remaining contractual maturity

	31 Dec 2020	31 Dec 2019
	€m	€m
Total after netting of loans and advances centralised at the *'Caisse des Dépôts et Consignation'*	**42,138**	
Loan and advance centralised at the *'Caisse des Dépôts et Consignation'* presented net against regulated savings accounts[1]	**1,671**	
Netting on reverse repurchase agreements[1]	**29,434**	
Total before netting	**73,243**	96,318
On demand deposits	**27,640**	37,876
Term deposits	**45,512**	58,362
≤ 3 months	**37,521**	51,753
> 3 months and ≤ 1 year	**4,833**	3,595
> 1 year and ≤ 5 years	**3,001**	2,832
> 5 years	**157**	182
Accrued interests	**91**	80
Total	**73,243**	96,318
– of which: securities received under reverse repurchase agreements	***39,851***	*70,809*
– of which: subordinated loans	***47***	*49*

1 *Refer to Note 1. In 2019, EUR 2,182 million in loans and advances centralised at the* Caisse des Dépôts et Consignation *would have been presented net against regulated savings accounts and EUR 49,739 million in reverse repurchase agreements would have been presented net.*

3 Loans and advances to customers

Breakdown of outstanding loans by type

	31 Dec 2020	31 Dec 2019
	€m	€m
Total	**64,100**	
Netting on reverse repurchase agreements[1]	**2,890**	
Total before netting	**66,990**	82,094
Commercial loans	**2,601**	2,688
Overdraft	**3,067**	3,853
Other customer facilities[2]	**61,322**	75,553
Total	**66,990**	82,094
– of which: eligible loans for European Central Bank or Banque de France refinancing	***22,952***	*17,219*
– of which: reverse repurchase agreements	***13,993***	*29,736*

1 *Refer to Note 1. In 2019, EUR 4,852 million in reverse repurchase agreements would have been presented net.*
2 *This is explained by the decrease in the reverse repurchase activity.*

Breakdown of outstanding loans by quality

	31 Dec 2020				31 Dec 2019
	Performing loans	Non-performing loans	Impairment on non-performing loans	Total	Total
	€m	€m	€m	€m	€m
Retail loans	**17,716**	**197**	**(111)**	**17,802**	17,018
Financial customer loans	**2,048**	**–**	**(8)**	**2,040**	2,789
Non-financial customer loans	**32,150**	**1,434**	**(519)**	**33,065**	32,457
Reverse repurchase agreements	**13,993**	**–**	**–**	**13,993**	29,736
Accrued interests	**88**	**2**	**–**	**90**	94
Total	**65,995**	**1,633**	**(638)**	**66,990**	82,094
– of which subordinated loans				**–**	–
– of which gross non-performing loans				***1,212***	*1,198*
– of which gross impaired loans				***421***	*454*
– of which impairment on gross non-performing loans				***(341)***	*(275)*
– of which impairment on gross impaired loans				***(297)***	*(294)*

Breakdown of outstanding loans by remaining contractual maturity

	31 Dec 2020 €m	31 Dec 2019 €m
Repayable on demand	**3,429**	5,247
Term deposits	**63,552**	76,754
≤ 3 months	**14,666**	27,444
> 3 months and ≤ 1 year	**12,275**	11,434
> 1 year and ≤ 5 years	**21,491**	22,985
> 5 years	**15,120**	14,891
Accrued interest	**9**	93
Total	**66,990**	82,094

4 Portfolios of trading, available-for-sale securities and held-to-maturity securities

	31 Dec 2020 Carrying amount €m	31 Dec 2019 Carrying amount €m
Treasury bills and other eligible bills	**24,629**	20,574
– Trading account securities	**20,491**	17,824
– Available-for-sale securities	**4,129**	2,744
– Held-to-maturity securities	**—**	—
– Accrued interest	**9**	6
– of which: securities borrowed presented net against corresponding liabilities[1]	***3,929***	
Treasury bills and other eligible bills after netting	**20,700**	
Debt securities	**5,183**	5,628
Trading account securities	**1,474**	3,016
– bonds and other quoted securities	**1,474**	2,036
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Available-for-sale securities	**3,130**	2,036
– quoted bonds	**3,098**	576
– unquoted bonds, interbank market securities and tradable debt securities	**32**	6
Held-to-maturity securities	**570**	570
– quoted bonds	**570**	570
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Accrued interest	**9**	6
– of which subordinated debt	***470***	*470*
– of which: securities borrowed presented net against corresponding liabilities[1]	***763***	
Debt securities after netting	**4,420**	
Equity shares and similar & portfolio equities	**158**	244
Trading account securities	**—**	—
– quoted shares	**—**	—
– unquoted shares and similar	**—**	—
Available-for-sale securities	**—**	8
– quoted shares	**—**	—
– unquoted shares and similar	**—**	8
Portfolio activity securities	**158**	236
– quoted portfolio activity shares	**—**	—
– unquoted portfolio activity shares	**158**	236
Total	**29,970**	26,446

1 Refer to Note 1. In 2019, EUR 3,115 million assets arising from securities borrowing transactions would have been deducted from corresponding liabilities.

Breakdown by remaining contractual maturity of treasury bills and government bonds

	31 Dec 2020 €m	31 Dec 2019 €m
Treasury bills and other eligible bills		
≤ 3 months	**1,032**	799
> 3 months and ≤ 1 year	**2,448**	2,438
> 1 year and ≤ 5 years	**5,899**	5,981
> 5 years	**15,241**	11,350
Accrued interest	**9**	6
Total	**24,629**	20,574
Debt securities		
≤ 3 months	**192**	176
> 3 months and ≤ 1 year	**426**	296
> 1 year and ≤ 5 years	**2,812**	2,128
> 5 years	**1,744**	3,022
Accrued interest	**9**	6
Total	**5,183**	5,628

Estimated value of the portfolio of financial investments and portfolio equities

	31 Dec 2020		31 Dec 2019	
	Net carrying	Estimated	Net carrying	Estimated
	€m	€m	€m	€m
Treasury bills and other eligible bills	4,129	4,214	2,744	2,809
Debt securities	3,130	3,174	2,036	2,070
Equity shares and similar and other portfolio equities	158	199	244	295
Total available-for-sale and portfolio activity securities (excluding related receivables)	**7,417**	**7,587**	5,024	5,174

The financial investments portfolio is made up mainly of fixed income securities for which the interest-rate risk is usually hedged. The portfolio valuation rules are given in Note 1b.

Unrealised gains and losses in financial investments and portfolio equities

	31 Dec 2020		
	Before provisions	Provisions	Net amount
	€m	€m	€m
Unrealised gains in available-for-sale and portfolio equities[1]	172	–	172
– treasury bills and other eligible bills	86	–	86
– bonds and other fixed-income securities	45	–	45
– equity shares and similar & portfolio equities	41	–	41
Unrealised losses in available-for-sale and portfolio equities[1]	9	7	2
– treasury bills and other eligible bills	1	–	1
– bonds and other fixed-income securities	1	–	1
– equity shares and similar & portfolio equities	7	7	–

1 *Available derivatives of associates represent EUR -73 million.*

Additional information on the securities given in compliance with ANC 2014-07 regulation dated 26 November 2014

No held-to-maturity securities have been sold during the period.

The premium (Unamortised difference between the acquisition price and the redemption price of securities) of available-for-sale and held-to-maturity securities amounted to EUR 76 million in 2020 and to EUR 36 million in 2019.

No security was transferred from one portfolio to another portfolio in 2020 or in 2019.

5 Investments in subsidiaries and equity securities held for long term

	31 Dec 2020	31 Dec 2019
	Net carrying amount	Net carrying amount
	€m	€m
Interests in subsidiaries and associates	64	73
Listed securities	–	–
– banks	–	–
– others	–	–
Non-listed securities	64	73
– banks	45	45
– others	19	28
Other long-term securities	21	13
Listed securities	–	–
– banks	–	–
– others	–	–
Non-listed securities	21	13
– banks	–	–
– others	21	13
Interests in group companies	1,359	1,353
Listed securities	–	–
– banks	–	–
– others	–	–
Non-listed securities	1,359	1,353
– banks	583	571
– others	776	782
Accrued income		–
Total (including the 1976 statutory revaluation)	1,444	1,439

	31 Dec 2020	31 Dec 2019
	€m	€m
Gross amounts at 1 January (excluding advances and accrued income)	**1,557**	1,661
Changes in the year:		–
– acquisitions of securities/share issues	**22**	4
– disposals/capital reductions	**(17)**	(108)
– effect of foreign exchange differences	**–**	–
– other movements/merger	**(1)**	–
Gross amounts at 31 December (excluding advances and accrued interests)	**1,561**	1,557
Impairments at 1 January	**(118)**	(109)
Changes in the year:		–
– new allowances	**(9)**	(16)
– release of allowances no longer required	**10**	7
– other movements	**–**	–
– effect of foreign exchange differences	**–**	–
Impairment at 31 December	**(117)**	(118)
Accrued income	**–**	–
Net book value including accrued interests	**1,444**	1,439

6 Intangible assets

	31 Dec 2020	31 Dec 2019
	€m	€m
Gross amounts at 1 Jan	**662**	467
Changes in the year:	**–**	–
– transfers and other movements	**1**	13
– fixed asset acquisitions	**34**	183
– fixed asset disposals and other changes[1]	**(165)**	(1)
Gross amounts value at 31 Dec	**532**	662
Amortisation at 1 January	**315**	187
Changes in the year:	**–**	–
– charges for the period for amortisation and impairment[2]	**333**	128
– transfers and other movements	**–**	–
– fixed asset disposals and other changes[1]	**(158)**	–
Amortisation at 31 Dec	**490**	315
Net book value of fixed assets at 31 Dec	**42**	347

1 *Mainly due to software's write off*
2 *Include exceptional software write-off of EUR 155 million and impairment of software and other intangible assets for EUR 153 million.*

Since 1 January 2016 and according to 2015-06 ANC new regulation of 23 November 2015 which modifies 2014-03 ANC regulation, the goodwill is recognised in a specific account in the relevant asset category after its affectation (art 745-6). The amortisation method and period are the same as those applied to amortised assets it is linked to (art 745-7).

Goodwill is impaired when the current value of one or more underlying assets, to which a portion of it was affected, is lower than the carrying amount of the asset(s) plus the attributed goodwill. The current value is the higher of the market value and the value-in-use (see articles 214-1 to 214-27 of 2015-06 ANC regulation).

Goodwill allocation of assets

	Gross amounts at 1 Jan 2020	Increases	Decreases	Carrying amounts at 31 Dec 2020
	€m	€m	€m	€m
Intangible assets	**27.3**	**–**	**27.3**	**–**
Tangible assets	**5.1**	**–**	**0.5**	**4.6**
Financial assets	**0.2**	**–**	**–**	**0.2**
Total	**32.6**	**–**	**27.8**	**4.8**

7 Tangible assets

	31 Dec 2020 €m	31 Dec 2019 €m
Gross amounts at 1 Jan	**786**	751
Changes in the year:	**—**	—
– transfers and other movements	**—**	(12)
– fixed asset acquisitions	**51**	60
– fixed asset disposals and other changes	**(73)**	(13)
Carrying amount at 31 Dec	**764**	786

Depreciation at 1 January	**605**	554
Changes in the year:	**—**	—
– charges for the period for depreciation and impairment[2]	**150**	62
– transfers and other movements	**—**	—
– fixed asset disposals and other changes[1]	**(70)**	(11)
Depreciation at 31 December	**685**	605
Carrying amount at 31 Dec	**79**	181

1 *Of which exit of previous headquarters place for EUR 46 million.*
2 *Of which impairment for EUR 92 million.*

Breakdown of tangible fixed assets by type

	31 Dec 2020 €m	31 Dec 2019 €m
Operating land and buildings	**34**	37
Non-operating land and buildings	**1**	1
Other tangible assets	**44**	143
Carrying amount at 31 Dec	**79**	181

Finance lease

	31 Dec 2020 €m	31 Dec 2019 €m
Assets under construction	**3**	3
Gross amount[1]	**926**	945
Amortisation	**(481)**	(427)
Accrued interests	**—**	1
Total	**448**	522

1 *Main assets in 2020: road assets for EUR 348 million, public building and construction for EUR 104 million, IT Office for EUR 175 million.*

At 31 December 2020, the financial outstanding amounts to EUR 476 million (EUR 506 million in 2019) and the provision for negative unearned finance income before deferred tax to EUR 33 million (EUR 52 million in 2019).

8 Loan impairment

	Balance at 1 Jan 2020 €m	Additions €m	Amounts utilised €m	Unused amounts reversed €m	Other movements €m	Balance at 31 Dec 2020 €m
Impairment on interbank and customer non-performing loans (excluding doubtful interest)	570	247	(50)	(125)	(4)	**638**
Impairment on securities	—	—	—	—	—	**—**
Provisions for loans commitments	38	36	—	(19)	(11)	**44**
Total of impairment and provisions recognised in cost of risk	608	283	(50)	(144)	(15)	**682**

Loan impairment charges

	31 Dec 2020 €m	31 Dec 2019 €m
Net impairment charge for the period:		
– interbank and customer non-performing and impaired receivables (excluding doubtful interest)	**(195)**	(119)
– counterparty risk on securities	**—**	—
– Loan commitments	**(18)**	(16)
– recoveries of amounts previously written off	**2**	2
Total loan impairment charges	**(211)**	(133)
– *of which:*		
unprovided losses on non-performing and impaired receivables	***(73)***	*(11)*
unprovided losses on loan commitments	**—**	—
losses hedged by provisions.	***(50)***	*(83)*

9 Other assets

	31 Dec 2020	31 Dec 2019
	€m	€m
Securities transactions settlement accounts	1,881	918
Sundry debtors and other receivables	31,380	25,283
Total	**33,261**	26,201

10 Prepayments and accrued income

	31 Dec 2020	31 Dec 2019
	€m	€m
Items in course of collection from other banks	128	157
Other assets[1]	54,006	42,371
Total	**54,134**	42,528

1 *Including mark-to-market on derivatives instruments for EUR 53,173 million in 2020, and 41,250 millions EUR in 2019.*

11 Deposit by banks

Deposits by banks

	31 Dec 2020	31 Dec 2019
	€m	€m
Total	**28,896**	
Netting on repurchase agreements[1]	29,434	–
Total before netting	**58,330**	82,458
On demand deposits	**6,528**	25,434
Term deposits	**51,760**	56,975
≤3 months	34,833	46,575
>3 months and ≤ 1 year	2,813	3,500
>1 year and ≤5 years	14,114	5,650
>5 years	–	1,250
Accrued interest	42	49
Total	**58,330**	82,458
– of which: repurchase agreements	***37,281***	*65,323*

1 *Refer to Note 1. In 2019, EUR 49,739 million in repurchase agreements would have been presented net.*

12 Customer accounts

Breakdown of customer credit balances by type of deposit

	31 Dec 2020	31 Dec 2019
	€m	€m
Total after netting of loans and advances centralised at the 'Caisse des Dépôts et Consignation'	**63,319**	
Loan and advance centralised at the 'Caisse des Dépôts et Consignation' presented net against regulated savings accounts[1]	1,671	
Netting on repurcahse agreements[1]	2,890	
Total before netting	**67,880**	67,474
On demand deposits	39,887	67,474
Special demand accounts	7,999	7,818
Special term accounts	720	722
Term accounts	13,236	11,289
Total customer deposits (excluding repurchase agreements)	**61,842**	57,966
Repurchase agreements	6,009	9,462
Accrued interest	29	46
Total customer credit balance accounts	**67,880**	67,474

1 *Refer to Note 1. In 2019, EUR 2,182 million in loans and advances centralised at the* Caisse des Dépôts et Consignation *would have been presented net against regulated savings accounts and EUR 4,852 million in repurchase agreements would have been presented net.*

Breakdown of customer credit balances by remaining contractual maturities

	31 Dec 2020 €m	31 Dec 2019 €m
On demand deposits	**47,886**	46,095
Term deposits	**19,965**	21,333
≤3 months	**18,082**	18,717
>3 months and ≤1 year	**1,601**	153,619
>1 year and ≤5 years	**225**	223
>5 years	**57**	58
Accrued interest	**29**	46
Total	**67,880**	67,474

13 Debt securities in issue

	31 Dec 2020 €m	31 Dec 2019 €m
Certificates of deposit (including accrued interest)	**–**	–
Interbank market securities and tradable debt securities	**7,838**	16,110
Bonds	**9,460**	8,660
Accrued interest	**21**	35
Total	**17,319**	24,805

Breakdown of debt securities by maturity

	31 Dec 2020 €m	31 Dec 2019 €m
Debt securities	**17,298**	24,770
≤3 months	**52**	1,820
>3 months and ≤1 year	**3,317**	9,611
>1 year and ≤5 years	**5,918**	5,872
>5 years	**8,011**	7,467
Accrued interest	**21**	35
Total	**17,319**	24,805

Issuance premium to be amortised is EUR 9.8 million at 31 December 2020 compared to EUR 13 million at 31 December 2019.

14 Provisions

	Balance at 1 Jan 2020 €m	Additions[1] €m	Amounts utilised €m	Unused amounts reversed €m	Other movements €m	Balance at 31 Dec 2020 €m
Provisions for commitments by signature and disputes	**76**	**36**	**(2)**	**(20)**	**(12)**	**78**
Other provisions	**324**	**298**	**(92)**	**(17)**	**2**	**515**
Total	**400**	**334**	**(94)**	**(37)**	**(10)**	**593**

1 Primarily provisions on restructuring plans. See '2020 Highlights'.

Provision on PEL/CEL

	31 Dec 2020				
	PEL				
	≤ 4 years €m	> 4 years and ≤ 10 years €m	> 10 years €m	Total €m	CEL €m
Amounts collected	**19**	**277**	**390**	**686**	**88**
Outstandings collected	**–**	**–**	**–**	**–**	**–**
Provisions	**–**	**–**	**(6)**	**(6)**	**–**
Allocation to provisions/reversal	**–**	**–**	**–**	**–**	**–**

15 Other liabilities

	31 Dec 2020 €m	31 Dec 2019 €m
Total after stock borrowing deduction	**53,455**	82,458
Assets arising from securities borrowing transactions deducted from corresponding liabilities[1]	**4,692**	–
Total before netting	**58,147**	82,458
Securities transactions settlement accounts	**279**	557
Sundry creditors[2]	**17,137**	11,963
Short position and securities received under repurchase agreements confirmed resold	**40,731**	41,569
Total	**58,147**	54,089

1 Refer to Note 1. In 2019, EUR 3,115 million assets arising from securities borrowing transactions would have been deducted from corresponding liabilities.
2 Of which deposits on derivatives received in 2020: EUR 16,283 million and EUR 11,610 million in 2019.

16 Accruals and deferred income

	31 Dec 2020	31 Dec 2019
	€m	€m
Items in course of collection to other banks	111	110
Other liabilities[1]	53,593	42,383
Total	**53,704**	42,493

1 Including mark-to-market on derivatives instruments: EUR 52,474 million in 2020 and EUR 41,270 million in 2019.

17 Subordinated debt

Subordinated debts are dated or undated, loans or securities, for which repayment is subordinated to other creditors in case of liquidation.

Accrued interest, if any, on these subordinated securities is recognised in the balance sheet in an accrued interest account with a corresponding amount recognised in profit and loss.

	31 Dec 2020	31 Dec 2019
	€m	€m
Subordinated notes	—	—
Undated subordinated notes	16	16
Subordinated debts	2,610	2,110
Accrued interest	2	2
Total	**2,629**	2,128

Securities issued by HSBC Continental Europe

Subordinated securities issued by HSBC Continental Europe, in euros and other currencies, are liabilities which will only be repaid, in the event of liquidation, after the interests of other creditors have been extinguished but before repayment of the holders of participating securities or equity.

Participating securities: undated subordinated securities

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2020 €m	31 Dec 2019 €m
Undated subordinated securities	22.07.1985		TMO - 0,25	FRF	16	16
Accrued interest					—	—
Total (including accrued interest)					**16**	16

Participating securities are refunded at a price equal to the par only in the case of the liquidation of the company.

Subordinated debts

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2020 €m	31 Dec 2019 €m
Subordinated debts[1]	22.12.2014	22.12.2029	Floating rate	EUR	260	260
Undated debts[2]	26.05.2017	perpetual	Fixed rate as defined on the contract	EUR	200	200
	28.03.2018	perpetual	Fixed rate as defined on the contract	EUR	300	300
	16.12.2019	perpetual	Floating rate	EUR	250	250
Subordinated debts[3]	26.05.2017	26.05.2027	Floating rate	EUR	300	300
	21.06.2018	21.06.2028	Floating rate	EUR	300	300
	29.01.2019	29.01.2029	Floating rate	EUR	400	400
	27.07.2019	27.06.2029	Floating rate	EUR	100	100
	22.05.2020	22.05.2030	Taux variable	EUR	500	—
Accrued interest					2	2
Total for securities issued by HSBC Continental Europe (including accrued interest)					**2,612**	2,112

1 A total or a part refund will be possible from December 2024. The subordinated liabilities conversion in equity or in debt is not possible.
2 Tier 1: A total or a part refund (Additional Tier 1) will be possible, under certain conditions, from the 26th of May 2022. The conversion in capital of these shares will be possible under certain conditions.
3 Tier 2: A total or a part refund (Tier 2) will be possible, under certain conditions, from the 26th of May 2022. The subordinated liabilities conversion in equity or in debt is not possible.

18 Called up share capital

(shares with a nominal value of 5 euros)	31 Dec 2020 Number of shares	31 Dec 2020 Total (in thousands of euros)	31 Dec 2019 Number of shares	31 Dec 2019 Total (in thousands of euros)
At 1 Jan	**98,231,196**	**491,156**	73,316,988	366,585
– subscription options exercised	**—**	**—**	—	—
– new capital issued – merger	**—**	**—**	24,914,208	124,571
– reduction of capital	**—**	**—**	—	—
At 31 Dec	**98,231,196**	**491,156**	98,231,196	491,156

Voting rights

At 31 December 2020, the total of voting rights stood at 98,231,196.

19 Equity

	31 Dec 2020 €m	31 Dec 2019 €m
Called-up share capital	**491**	491
Share premium account	**2,155**	2,158
Reserves	**1,041**	1,041
– legal reserve	**38**	38
– long-term gains reserve	**406**	406
– revaluation reserve	**3**	3
– extraordinary and other reserve	**305**	305
– free reserve	**294**	294
– revaluation reserve on past service costs	**(5)**	(5)
Retained earnings[1]	**3,185**	3,330
Interim dividend	**—**	—
Special tax-allowable reserves	**—**	—
Net profit for the year	**(906)**	(147)
Equity	**5,966**	6,873

1 *Before proposed appropriation submitted to HSBC Continental Europe Annual General Meeting's approval.*

Changes in equity in 2020

	2020 €m
Balance at 1 Jan	**6,873**
Net profit for the year	**(906)**
New shares issued upon exercise of stock options	**—**
Capital increase	**—**
Interim dividend	**—**
Others	**(1)**
Balance at 31 Dec	**5,966**

Legal reserve

This reserve is built up by appropriating at least one-twentieth of the year's profit. This appropriation ceases to be mandatory once this reserve reaches one-tenth of share capital. It is not distributable.

Net long-term gains reserve

Distributing this reserve would lead to an additional tax charge equal to the difference between standard tax rate and reduced tax rate.

Revaluation reserve (1976 revaluation)

This reserve could be incorporated into capital, but it cannot be distributed or used to offset losses.

Other reserves

Amounts put into reserves over five years ago would be subject to a levy if they were to be distributed.

For distributions paid on or after 1 January 2000, HSBC Continental Europe can charge the dividends against profits liable to corporate income tax for accounting periods ended at most five years ago, starting with the oldest, in application of the decree of 21 December 1999.

20 Pensions, post-employment benefits

	31 Dec 2020 €m	31 Dec 2019 €m
Provision for employee-related commitments[1]	**158**	171

1 *Including defined benefits pension plans for Executive Board for EUR 5.1 million in 2020 and for EUR 4.9 million in 2019.*

Principal actuarial assumptions of the post-employment defined benefit plans

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2020, and the 2020 periodic costs, were:

(in %)	Discount rate	Inflation rate	Rate of increase for pensions in payment and deferred pensions	Rate of pay increase
At 31 Dec 2020	**0.4**	**1.50**	**0.40**	**2.57**
At 31 Dec 2019	0.65	1.50	1.50	2.61

HSBC Continental Europe determines discount rates in consultation with its actuaries based on the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the defined benefit obligation.

Provision recognised

	31 Dec 2020	31 Dec 2019
	€m	€m
Present value of benefit obligations	**163**	178
Fair value of plan assets	**(6)**	(7)
Net liability recognised	**158**	171

The components of the table below have been recognised in on profit & loss.

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net benefit asset/ liability
	€m	€m	€m
Net defined benefit liability at 1 January 2020	**7**	**178**	**171**
Current service cost	**—**	**7**	**7**
Net interest (income)/cost on the net defined benefit liability	**—**	**2**	**2**
Remeasurement effects recognised in other comprehensive income[1]	**—**	**(16)**	**(16)**
Benefits paid	**(1)**	**(8)**	**(7)**
At 31 Dec 2020	**6**	**163**	**158**

1 *Includes curtailment effect of EUR (21) million in 2020 linked to restructuring plans and EUR 5 million due to the change in actualisation rate and social charges rate.*

Fair value of plan assets by asset classes

	31 Dec 2020			
	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	€m	€m	€m	€m
Fair value of plan assets	**6**	**6**	**—**	**—**
– equities	**—**	**—**	**—**	**—**
– bonds	**6**	**6**	**—**	**—**
– property	**—**	**—**	**—**	**—**
– derivatives	**—**	**—**	**—**	**—**
– other	**—**	**—**	**—**	**—**

21 Off-balance sheet items

	31 Dec 2020	31 Dec 2019
	€m	€m
A – Loan commitments		
Commitments given	**47,223**	40,093
Refinancing agreements and other financing commitments in favour of banks	**2,544**	2,223
In favour of customers	**44,679**	37,870
– confirmed credit facilities[1]	**44,594**	37,841
– acceptances payable and similar instruments	**85**	29
Commitments received	**3,324**	5,479
Refinancing agreements and other financing commitments in favour of banks	**3,324**	5,479
B – Guarantee commitments		
Commitments given	**9,695**	10,398
– guarantees, acceptances and other securities to banks	**2,603**	2,674
– guarantees, acceptances and other securities to customers	**7,093**	7,724
Commitments received	**17,931**	16,692
– guarantees, acceptances and other security from banks	**17,931**	16,692

1 *Primarily new commitments for customers transferred from HSBC Bank plc to HSBC Continental Europe during 2020.*

Other pledged assets

	31 Dec 2020
	€m
Covered bonds	**4,000**
Loans pledged on guarantee 3G and TRICP	**3,029**
Loans pledged on guarantee CCBM	**17,085**
Securities pledged on guarantee	**3,170**
Total	**27,284**

22 Derivatives

	31 Dec 2020				31 Dec 2019			
	Fair value	Hedging contracts[1]	Trading contracts[1]	Total[1]	Fair value	Hedging contracts[1]	Trading contracts[1]	Total[1]
	€bn	€bn	€bn	€bn	€bn	€bn	€bn	€bn
Unconditional transactions	**(1.1)**	**29**	**3,634**	**3,663**	(1.3)	35	3,277	3,312
Exchange traded	**–**	**–**	**89**	**89**	–	–	122	122
– interest rate	**–**	**–**	**82**	**82**	–	–	115	115
– exchange rate	**–**	**–**	**–**	**–**	–	–	–	–
– equity	**–**	**–**	**7**	**7**	–	–	7	7
Non-exchange traded	**(1.1)**	**29**	**3,545**	**3,574**	(1.3)	35	3,155	3,190
– futures	**–**	**–**	**294**	**294**	–	–	208	208
– interest rate	**(0.6)**	**29**	**2,712**	**2,741**	(1.3)	35	2,515	2,550
– exchange rate	**(0.1)**	**–**	**90**	**90**	0.1	–	93	93
– other contracts	**(0.4)**	**–**	**449**	**449**	(0.1)	–	339	339
Conditional transactions	**(0.6)**	**–**	**723**	**723**	(0.3)	11	902	913
Exchange traded	**–**	**–**	**104**	**104**	–	–	147	147
Interest rate	**–**	**–**	**49**	**49**	–	–	72	72
Exchange rate	**–**	**–**	**50**	**50**	–	–	54	54
Other contracts	**–**	**–**	**5**	**5**	–	–	21	21
Non-exchange traded	**(0.6)**	**–**	**619**	**619**	(0.3)	11	755	766
Caps and floors	**(0.1)**	**–**	**229**	**229**	(0.2)	–	277	277
Swaptions and options	**(0.5)**	**–**	**390**	**390**	(0.2)	11	479	490
– bought	**(0.5)**	**–**	**25**	**25**	–	5	26	31
– sold	**–**	**–**	**365**	**365**	(0.2)	6	453	459
Total derivatives	**(1.7)**	**29**	**4,357**	**4,386**	(1.6)	46	4,179	4,225

1 *Notional contract amounts.*

Other information on derivatives

Notional contract amounts	31 Dec 2020	31 Dec 2019
	€bn	€bn
Microhedge contract[1]	**22**	30
Macrohedge contract[2]	**7**	5
Trading	**2,712**	2,515
Other	**–**	–

1 *Interest rate swaps accounted for as micro-hedging are used to hedge interest and currency rate risk of an asset or a liability at the beginning of the transaction.*
2 *Interest rate swaps accounted for as macro-hedging are used to hedge and to manage the global interest rate risk of portfolio of assets and liabilities of the bank.*

Derivatives: maturity analysis

	31 Dec 2020			
	≤ 1 year	>1 year and ≤ 5 years	> 5 years	Total
(in billion euro)	€bn	€bn	€bn	€bn
Derivatives:				
– Exchange contracts	**20**	**47**	**24**	**91**
– Interest rate contracts	**1,329**	**1,376**	**1,119**	**3,824**
– Others	**433**	**35**	**3**	**471**
Total	**1,782**	**1,458**	**1,146**	**4,386**

Risk-weighted assets – Amount of Exposure At Default ('EAD') for derivatives contracts

	31 Dec 2020 €m	31 Dec 2019 €m
A – Contracts concluded under Master agreement with close-out netting	**11,747**	11,199
1. Transactions with banks from OECD countries	**11,587**	11,080
2. Transactions with customers and banks localised outside OECD countries	**160**	119
B – Other contracts	**331**	735
1. Transactions with banks from OECD countries	**320**	725
– interest rate contracts	**195**	642
– exchange contracts	**108**	74
– equity derivatives contracts	**17**	9
– credit derivatives contracts	**–**	–
– commodities contracts	**–**	–
2. Transactions with customers and banks localised outside OECD countries	**11**	10
– interest rate contracts	**2**	2
– exchange contracts	**9**	8
– equity derivatives contracts	**–**	–
Total Exposure at Default	**12,078**	11,933
Corresponding risk-weighted assets ('RWA')	**3,078**	2,709

Clearing effect on Exposure at Default

	31 Dec 2020 €m	31 Dec 2019 €m
Original exposure before credit risk mitigation (including close-out netting)	**86,613**	75,514
Exposure mitigation due to close-out netting	**(73,243)**	(62,548)
Exposure mitigation due to credit mitigation	**(1,292)**	(1,032)
Exposure value after credit risk mitigation	**12,078**	11,933

Modification made to the data published at the end of 2019 to correct the allocation of our credit risk equivalents on derivative products linked to collateral posted to our counterparties. These credit risk equivalents are indeed part of contracts negotiated within the framework agreement and benefit from a compensation effect (Section A). They were incorrectly reported under 'Other contracts' – Heading B on the 2019 note.

23 Net interest income

	31 Dec 2020 €m	31 Dec 2019 €m
Interest and similar income		
Banks and financial institutions	**537**	531
Customers	**1,069**	1,111
Bonds and other fixed-income securities	**329**	347
Total	**1,935**	1,989
Interest and similar expenses		
Banks and financial institutions	**745**	652
Customers	**276**	264
Subordinated liabilities	**55**	41
Other bonds and fixed-income securities	**324**	365
Total	**1,400**	1,321

24 Income on securities portfolio

	31 Dec 2020 €m	31 Dec 2019 €m
Income		
Available-for-sale and similar & portfolio activity securities	**2**	9
Interests in subsidiaries and associates and other long-term securities	**–**	–
Interests in group companies	**24**	41
Total	**26**	50

25 Net fee income

	31 Dec 2020 €m	31 Dec 2019 €m
Fees		
Income	**993**	952
On transactions with banks	**34**	27
On transactions with customers	**95**	98
On foreign exchange transactions	**1**	1
On primary securities market activities	**125**	98
On provision of services for third parties	**543**	553
On commitments	**152**	131
Other commission	**43**	44
Expenses	**(205)**	(239)
On transactions with banks	**(31)**	(18)
On corporate actions	**(49)**	(60)
On forward financial instrument activities	**(6)**	(8)
On provision of services for third parties	**(110)**	(141)
On commitments	**(1)**	(3)
Other commission	**(8)**	(9)
Total fees	**788**	713

26 Gains and losses on portfolio business transactions

	31 Dec 2020 €m	31 Dec 2019 €m
Gains or losses		
Trading securities	**(317)**	(358)
Foreign exchange transactions	**220**	131
Other derivatives	**284**	468
Total	**188**	241

27 Gains or losses on available-for-sale securities

	31 Dec 2020 €m	31 Dec 2019 €m
Results for available-for-sale securities		
Gains or losses	**49**	44
Impairment	**12**	(7)
– charges	**—**	(9)
– releases	**12**	2
Results for portfolio activity securities		
Gains or losses	**27**	5
Impairment	**8**	(3)
– charges	**(2)**	(3)
– releases	**10**	—
Total[1]	**96**	39

1 *Refer to Note 4.*

28 General operating expenses

	31 Dec 2020 €m	31 Dec 2019 €m
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation	**(857)**	(847)
Pension expense	**(98)**	(98)
Profit sharing	**—**	1
Incentive plan	**—**	1
Employee compensation and benefits subtotal	**(955)**	(943)
Other administrative expenses[1]	**(1,052)**	(760)
Total operating expenses	**(2,007)**	(1,703)

1 *Includes termination benefits arising from restructuring plans. Refer to '2020 Highlights'.*

Share award plans

At 31 December 2020, allowance stood at EUR 7.5 million.

29 Gains or losses on disposals of fixed assets

	31 Dec 2020	31 Dec 2019
	€m	€m
Gains or losses on held-to-maturity securities	—	—
Gains or losses on tangible and intangible fixed assets	2	2
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies[1]	71	(10)
Total	**73**	(8)

1 Includes gain on sale of Visa shares of EUR 65 million.

30 Tax expense and deferred tax

	31 Dec 2020	31 Dec 2019
	€m	€m
Current tax		
At standard rate	(9)	30
At reduced rate	—	—
Deferred taxation	**(102)**	33
Total	**(111)**	63

Deferred tax is calculated according to the principles set out in Note 1.

The rates used for calculating taxes are:

	Echéance 2021	*Echéance 2020*	*Echéance 2019*
	%	%	%
Standard rate	31.00	33.33	33.33
Reduced rate (PVLT gains rate)	3.7	4.0	4.0
Reduced rate (gains on disposal of property to SIIC)	19.0	19.0	19.0
Reduced rate (common funds on risk placement)	15.0	15.0	15.0
Tax contribution			
CSB	3.3	3.3	3.3
Exceptional contribution	—	—	—
Deferred taxation			
Standard rate on DT if assumption of recovery on 2020	N/A	N/A	31.00
Standard rate on DT if assumption of recovery on 2021	N/A	31.00	28.00
Standard rate on DT if assumption of recovery on 2022	27.50	27.50	26.50
Standard rate on DT from 2023	25.00	25.00	25.00
Reduced rate on DT if assumption of recovery on 2020	N/A	N/A	3.72
Reduced rate on DT if assumption of recovery on 2021	N/A	3.7	3.4
Reduced rate on DT if assumption of recovery on 2022	3.3	3.3	3.2
Reduced rate on DT from 2023	3.0	3.0	3.0

To which are added the applicable tax contributions

At the end of December 2020, the deferred taxes were recorded on taxation gaps generated by temporary differences.

The deferred tax rate at 27.5 % or 25 % (more CSB) is applicable according to the assumptions of recovery of these deferred taxes.

As the recoverability of deferred tax assets was uncertain, an amount of EUR 306 million of deferred tax assets was not recorded at 31/12/2020.

Tax group

Since 2001, the parent company of the tax group has been HSBC Bank plc Paris branch.

In 2020, tax benefits allowed by HSBC Bank plc to the HSBC Continental Europe group amounted to EUR 28.5 million. The proportion of benefits passed on to HSBC Continental Europe was EUR 28.5 million.

In 2019, tax benefits allowed by HSBC Bank plc to the HSBC Continental Europe group amounted to EUR 53.9 million. The proportion of benefits passed on to HSBC Continental Europe was EUR 53.9 million.

Deferred tax in the balance sheet

The net deferred tax receivable recognised in the balance sheet at 31 December 2020 was EUR 16 million compared with EUR 119 million at 31 December 2019.

At 31 December 2020 this receivable is made up of deferred tax assets of EUR 49 million against EUR 152 million at 31 December 2019 and a deferred tax liability of EUR 34 million compared with EUR 33 million at 31 December 2019.

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

HSBC group entities, including HSBC Continental Europe entities, 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 2.19a Legal Risks and Litigation management of the 2020 *Registration Document*, 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 31 December 2020.

Anti-money laundering and sanctions-related matters

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

HSBC's engagement with the Skilled Person appointed pursuant to the 2013 Direction was terminated in February 2020 and a new Skilled Person with a narrower mandate has been appointed to assess the remaining areas that require further work in order for HSBC to transition fully to business-as-usual financial crime risk management. A new Independent Consultant is also being appointed to continue to carry out an annual OFAC compliance review at the FRB's discretion.

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 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 and/or Somers Dublin DAC prior to the acquisition of HTIE (newly HSBC Continental Europe Dublin Branch).

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

Defender case:

In November 2013, Defender Limited brought an action against HTIE and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish Court issued a judgement in HTIE's favour on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgement concluded the trial without further issues in dispute being heard. In February 2019, Defender Limited appealed the judgement. In July 2020, the Irish Supreme Court ruled in part in favour of Defender Limited and returned the case to the High Court for further proceedings, which will resume in April 2021.

US litigation:

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

European interbank offered rates investigations

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

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC Continental Europe. HSBC appealed the decision and, in September 2019, the General Court of the European Union (the 'General Court') issued a decision largely upholding the EC's findings on liability, but annulling the fine. HSBC and the EC have appealed the General Court's decision.

Foreign exchange rate investigations and litigation

Various regulators and competition authorities around the world, including in the EU and South Africa, are conducting investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews. In January 2021, HSBC Holdings exited its three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. HSBC holdings entered into the FX DPA in January 2018, following the conclusion of the DoJ's investigation into HSBC's historical foreign exchange activities.

32 Presence in non-cooperative States or territories

HSBC Continental Europe does not hold any direct or indirect presence in any non-cooperative States or territories in accordance with the article 238-0 A of the General Tax Code.

33 Events after the balance sheet date

There was no material event subsequent to the reporting date that would require a correction or adjustment to the statutory financial statements as at 31 December 2020.

New products and services are offered to customers of the HSBC Group in Continental Europe on a regular basis. Information is available on the Group's websites, in particular in the press releases posted at www.hsbc.fr.

There has been no significant change affecting the financial or sales situation of HSBC Continental Europe or its subsidiaries since 31 December 2020 until the Board of Directors of 23 February 2021 which approves these financial statements.

34.1 Interests in subsidiaries and related parties at 31 December 2020

(in thousands of euros unless otherwise stated)	Legal status	Business	Share capital	Reserves + retained earnings before appropria-tion of net profit	Ownership interest %	Book value of securities held		Loans and advances granted by HSBC Continental Europe	Guaran-tees given by HSBC Continental Europe	Last year's sales	Last year's net profit or loss	Dividends received by HSBC Continental Europe in the last financial year
						Cost	Net					
A – Information on companies whose book value at cost exceeds 1% of HSBC Continental Europe's share capital												
1 – Subsidiaries (over 50%)												
HSBC SFH (France) (ex–HSBC Covered Bonds), Immeuble Coeur Défense –110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Financial company	113,250	558	100.00	113,239	113,239	—	—	55,408	387	831
HSBC Factoring (France) 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Factoring	9,240	112,866	100.00	39,236	39,236	1,518,394	—	37,879	15,729	—
Société Française et Suisse, 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Investment company	599	8,897	100.00	60,384	9,738	—	—	—	(4)	—
SAPC UFIPRO Recouvrement 38, avenue Kléber – 75116 Paris (France)	Limited liability company (SARL)	Dept collecting company	7,619	1,582	99.98	16,262	9,197	—	—	—	(5)	—
HSBC Epargne Entreprise (France), Immeuble Coeur Défense–110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Limited company (SA)	31,000	796	100.00	30,148	27,956	—	—	5,350	(4,381)	—
HSBC Global Asset Management (France) Immeuble Coeur Défense–110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Asset managemet	8,050	42,530	93.67	134,546	134,546	460	—	168,697	16,819	17,910
HSBC Services (France) (ex – HSBC Securities) 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Commercial company	2,442	532	100.00	36,877	2,967	—	—	—	(11)	—
Valeurs Mobilières Elysées (ex – Nobel), 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Limited company (SA)	41,920	8,220	100.00	67,757	51,277	—	—	—	(623)	—
HSBC Leasing (France) 38, avenue Kléber – 75116 Paris (France)	Simplified joint-stock company (SAS)	Leasing	168,528	173,122	100.00	281,756	281,756	223,011	—	—	19,034	—
SFM 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Holding company	40,000	48,317	100.00	84,053	84,053	—	—	—	5,070	—
Foncière Elysées S.A. 38, avenue Kléber – 75116 Paris (France)	Simplified joint-stock company (SAS)	Real estate	14,043	15,728	100.00	44,478	38,252	—	—	160	(114)	—
Charterhouse Management Services Ltd 8 Canada Square – London E14 5HQ (Royaume-Uni)	Limited company under english law	Investment company	11,315	—	100.00	11,314	11,314	—	—	27	12	—
HSBC Real Estate Leasing (France), 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Crédit-bail immobilier	38,255	60,672	80.98	37,190	37,190	—	—	113,638	7,010	—
CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (Royaume-Uni)	Limited company under English law	Investment holding	5,629	—	100.00	4,792	4,792	—	—	—	—	—
HSBC Assurances Vie (France), Immeuble Coeur Défense-110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Insurance company	115,000	573,007	100.00	513,999	513,999	—	—	1,366,787	65,187	—

B – Aggregate data concerning companies whose book value at cost does not exceed 1% of HSBC Continental Europe's share capital											
1 – Subsidiaries											
a) French subsidiaries (aggregated)	—	—	—	—	—	—	—	—	—	—	—
b) Foreign subsidiaries (aggregated)	—	—	—	—	—	—	—	—	—	—	—
2 – Related party companies											
a) French companies (aggregated)	—	—	—	—	4	—	—	—	—	—	—
b) Foreign companies (aggregated)	—	—	—	—	—	—	—	—	—	—	—

34.2 Transactions with subsidiaries and other related parties

	31 Dec 2020	
	Subsidiaries	**Other related parties**
	€m	**€m**
Assets		
Treasury bills and money-market instruments	**—**	**9,396**
Loans and advances to banks	**2,536**	**2,691**
Loans and advances to customers	**100**	**516**
Bonds and other fixed income securities	**570**	**763**
Liabilities		
Due to credit institutions	**3,671**	**5,894**
Customer accounts	**625**	**12**
Debt securities	**—**	**—**
Other liabilities	**—**	**9,539**
Subordinated liabilities	**—**	**2,610**
Off-balance sheet items		
Financing commitments given	**1,547**	**—**
Guarantees and endorsements given	**—**	**234**
Securities commitments (other commitments given)	**—**	**—**

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO Paris Audit & Advisory
43-47, avenue de la Grande Armée
75116 Paris

Statutory Auditors' report on the financial statements

(For the year ended 31 December 2020)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

HSBC Continental Europe (formerly HSBC France)
38, avenue Kléber

75116 Paris

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of HSBC Continental Europe for the year ended 31 December 2020.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2020 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors, for the period from 1 January 2020 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No. 537/2014.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 1 to the financial statements, which outlines changes in accounting principles such as the adoption of Regulation 2020-10 of 22 December 2020 of the French accounting standard-setter (*Autorité des Normes Comptables* – ANC) and the voluntary change in accounting method for the presentation of sale and repurchase agreements.

Justification of assessments – Key audit matters

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

It is in this complex and evolving context that, in accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

Complex derivative financial instruments measured at fair value based on unobservable data

Description of risk	How our audit addressed this risk
As part of its activities, HSBC Continental Europe holds complex derivative financial instruments. Derivative financial instruments are financial assets or liabilities measured at fair value on the balance sheet. The offsetting entry for the remeasurement of financial instruments at fair value at the reporting date is recognised in profit or loss. The measurement of derivatives may require the use of internally developed models using unobservable data such as long-term interest rates or volatilities for certain currencies. The measurement of more complex instruments may require several unobservable inputs such as volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices. It also takes account of adjustments for counterparty and liquidity risk. In view of the multiple inputs subject to management's judgement, we deemed the measurement of complex derivative financial instruments whose fair value is based on unobservable data to be a key audit matter for HSBC Continental Europe's financial statements.	We tested the effectiveness of the controls we deemed key to our audit, put in place by management to record, value and recognise these financial instruments, and specifically those regarding: • the independent validation of valuation models by the Independent Model Review – Markets department; • the independent verification of prices and valuations by the Product Control department; • the determination of fair value adjustments ("FVA"). We also sought the support of our experts in risk modelling to carry out, on a sample basis, an independent valuation of instruments measured based on unobservable data, using their own models and market inputs in order to assess the valuations generated by HSBC Continental Europe's internal models. We examined the assumptions, methods and models used by the Bank to estimate the main valuation adjustments (counterparty and liquidity risk) in order to assess their relevance.

At 31 December 2020, derivative instruments (including those whose fair value is measured based on unobservable data) represented EUR 53,173 million recognised under assets and EUR 52,474 million recognised under liabilities.
See Notes 10 and 16 to the financial statements.

Information systems access management

Description of risk	How our audit addressed this risk
Due to the nature of its activities, HSBC Continental Europe executes a large volume of transactions each day. Transactions are authorised, executed and recorded using complex information systems. The integrity of these systems is a key factor in the reliability of the financial statements. In previous audits, we identified weaknesses associated with user access rights to operating systems, databases and certain applications contributing directly or indirectly to the preparation of the financial statements. The weakness of controls relating to access management entails the risk that by omission or error, changes to financial information systems and processed data may not be appropriate. An action plan is currently being implemented by management, seeking to strengthen the control environment for user access rights and helping to mitigate the access management risk. We deemed information systems access management to constitute a key audit matter for the HSBC Continental Europe financial statements.	User access rights were tested on the applications, operating systems and databases used for the financial statements and those relevant to our audit. More specifically, our work allowed us to assess whether: • new user access requests to information systems are duly examined and authorised; • user access rights are revoked in a timely manner following the reassignment of personnel or their departure from the Group; • user access rights to applications, operating systems and databases are controlled in a consistent manner; • highly-privileged user access has only been granted to a very limited group of persons who require such access for the performance of their duties; and • controls on outsourced service providers are in place. Other areas were assessed independently, such as password policies and security configurations. An independent assessment was also performed on controls on modifications to applications and databases. We also tested controls intended to ensure that business line users and developers do not have access to applications, operating systems or databases in the production environment. When control weaknesses were identified, additional procedures were carried out: • we analysed the nature of the access where inappropriate access had been identified and, where possible, obtained additional evidence of its legitimacy; • we performed additional tests on specific end-of-year reconciliations (custodians, bank accounts and reconciliation of suspense accounts), as well as requesting confirmations from external counterparties; and • we performed tests on other controls carried out by management, such as performance reviews by business line.

See page 96 of the management report.

Individual impairment of consumer loans in Commercial Banking

Description of risk	How our audit addressed this risk
As part of its wholesale lending businesses, at year end HSBC Continental Europe estimates the risk of impairment of its portfolio and recognises any appropriate allowances. The Covid-19 crisis led to an increase in the cost of risk in 2020. Assessing the existence of a risk of non-recovery and the amount of the allowance set aside requires the Bank's management to exercise judgement and is subject to a high degree of uncertainty, which grew during the Covid-19 crisis. This assessment primarily takes into account potential risk indicators such as payments that are contractually past-due or other factors such as indications of a deterioration in the financial condition and outlook of borrowers affecting their ability to pay, business sectors experiencing economic stress, the recoverable amount of guarantees, likely available dividends in the event of liquidation or bankruptcy, and the viability of the customer's business model. Given the material nature of these outstandings for the Bank, the significance of management's judgement in estimating the allowances and the higher historical cost of risk in an admittedly less favourable context, we deemed this to be a key audit matter.	Management has put in place controls designed to ensure the reliability of the calculation of individual impairment. In this context, we tested the controls we deemed key to our audit, in order to assess the relevance of the impairment losses recorded. Our tests concerned the controls in place for monitoring loans, regularly reviewing credit files and approving individual impairment. We performed a critical assessment of the tests used by management to verify that the estimated allowances determined using internally-developed models were proportionate to the actual losses observed in prior periods. We also tested the appropriateness of the methods and policies used to determine allowances, using a sample of loans selected based on risk. Based on this sample, we independently assessed the level of allowances recognised.

Impairment of doubtful receivables stood at EUR 638 million at 31 December 2020.
See Notes 3 and 8 to the financial statements.

Provisions for restructuring and reorganisation

Description of risk	How our audit addressed this risk
HSBC Continental Europe launched several reorganisation projects within its various business lines (Global Banking and Markets – GBM; Commercial Banking – CMB) and its central functions in both France and its branches. Accordingly, management recognised provisions for restructuring. The recognition criteria are specific and depend on when the restructuring plan was communicated in the related country, as well as on the labour laws in force in each country (in France and in the countries where its branches are located). The recognition criteria may include an agreement with the trade unions, a notification sent to an employee or a settlement agreement. As certain inputs are subject to management's judgement and given the timetable for recognising the provisions, we deemed provisions for restructuring to be a key audit matter for HSBC Continental Europe's financial statements.	We examined and assessed the appropriateness of the recognition criteria and the assumptions used by the Bank to determine the provisions recognised in the financial statements. We tested the effectiveness of the controls we deemed key to our audit, put in place by management to estimate and recognise the provisions. We also called upon our experts to assess the calculation method used. On a sample basis, we verified the consistency of the data used for the measurement of the provisions. We also assessed the information on provisions for restructuring provided in the financial statements for the year ended 31 December 2020.

At 31 December 2020, provisions for restructuring represented EUR 258 million.
See Note 14 to the financial statements and page 240 of the Registration Document.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements, with the exception of the following matter.

Concerning the fair presentation and the consistency with the financial statements of the information about payment terms referred to in article D.441-4 of the French Commercial Code, we have the following matter to report:

As indicated in the management report, this information does not include banking transactions and related transactions, as the Company has decided that such transactions do not fall within the scope of the required information.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by articles L.225-37-4 and L.22-10-10 of the French Commercial Code.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the financial statements to be included in the annual financial report

Pursuant to paragraph III of article 222-3 of the AMF's General Regulations, the Company's management informed us of its decision to postpone the application of the single electronic reporting format, as defined by European Delegated Regulation No. 2019/815 of 17 December 2018, to reporting periods beginning on or after 1 January 2021. Accordingly, this report does not contain a conclusion on the compliance of the presentation of the financial statements to be included in the annual financial report referred to in paragraph I of article L.451-1-2 of the French Monetary and Financial Code (*Code monétaire et financier*) with this format.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC Continental Europe by the Annual General Meetings held on 23 April 2015 for PricewaterhouseCoopers Audit and on 10 May 2007 for BDO Paris Audit & Advisory.

At 31 December 2020, PricewaterhouseCoopers Audit and BDO Paris Audit & Advisory were in the sixth and thirteenth consecutive year of their engagement, respectively.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the financial statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit. They also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;

- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant in the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris, 24 February 2021

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO Paris Audit & Advisory**
Agnès Hussherr	Michel Léger
Partner	Partner

Allocation of net profit

	31 Dec 2020 €m	31 Dec 2019 €m
Results available for distribution		
– retained earnings	**3,185**	3,330
– net profit for the year	**(906)**	(147)
Total (A)	**2,278**	3,184
Allocation of income		
– dividends	**–**	–
– legal reserve	**–**	–
– free reserve	**–**	–
Total (B)	**–**	–
Retained earnings (A-B)	**2,278**	3,184

Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

	2020 €m	2019 €m	2018 €m	2017 €m	2016 €m
Share capital at year end					
Called up share capital	**491**	491	367	337	337
Number of issued shares	**98,231,196**	98,231,196	67,437,827	67,437,827	67,437,827
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Sales	**3,285**	3,560	3,043	2,869	2,847
Profit before tax, depreciation and provisions	**(455)**	(120)	59	238	292
Profit after tax, depreciation and provisions	**(906)**	(147)	78	172	117
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**(5.8)**	(0.6)	1.3	3.3	4.5
Profit after tax, depreciation and provisions	**(9.2)**	(1.5)	1.1	2.5	1.7
Dividend paid per ordinary share, eligible as of 1 January	**–**	–	–	1.66	4.00
Employees (France)					
Number of employees[1]	**8,835**	9,314	8,377	8,080	8,382
Average number of employees (excluding employees available)	**9,058**	9,281	8,341	8,202	8,652
Salaries and wages	**640**	639	543	515	515
Employee benefits	**248**	247	249	249	249
Payroll and other taxes	**58**	53	64	61	63
Incentive schemes and/or employee profit-sharing scheme[2]	**–**	6	20	23	23

1 *Banking status employees, registered as at 31 December of each year.*
2 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2020 (excluding trading securities)

Held-on maturity, available-for-sale and portfolio activity securities

	31 Dec 2020 €m
A – Held-to-maturity securities	**571**
Debt securities	**571**
Treasury bills and other eligible bills	**–**
Other public sector securities	**–**
Money market instruments	**–**
Negotiable certificates of deposit	**–**
Negotiable medium-term notes	**–**
Bonds and similar assets	**570**
Accrued interest	**1**
B – Available-for-sale and portfolio activity securities	**7,434**
Debt securities	**7,276**
Treasury bills and other eligible bills	**–**
Other public sector securities	**4,129**
Money market instruments	**–**
Commercial paper	**–**
Negotiable certificates of deposit	**–**
Negotiable medium-term notes	**–**
Asset-backed securities	**–**
Bonds and similar	**3,130**
Negotiable medium-term notes issued by banks	**–**
Accrued interest	**17**
Equity shares	**158**
Equity shares and similar	**158**
Mutual fund units	**–**
Total held-to-maturity, available-for-sale and portfolio activity securities	**8,005**

Interests in related parties, other participating interests and long-term securities

	31 Dec 2020 €m
A – Other participating interest and long-term securities	**85**
Securities listed on a recognised French exchange	—
Unlisted French securities	85
Foreign securities listed on a recognised French exchange	—
Foreign securities listed elsewhere	—
Unlisted foreign securities	—
Accrued income	—
B – Interests in related parties	**1,359**
Listed French securities	—
Unlisted French securities	1,343
Listed foreign securities	—
Unlisted foreign securities	16
Accrued income	—
Total interests in related parties, other participating interests and long-term securities	**1,444**

HSBC Continental Europe’s principal subsidiaries and investment policy

HSBC Continental Europe’s principal subsidiaries at 31 December 2020

Commercial Banking

Distribution	HSBC Factoring (France) (100 per cent)

Global Banking and Markets

Real estate	Foncière Elysées (100 per cent)
	HSBC Real Estate Leasing (France) (100 per cent)
Structured financing and Global Banking	HSBC SFH (France) (100 per cent)
	SFM (100 per cent)
	HSBC Leasing (France) (100 per cent)

Asset Management

France	HSBC Global Asset Management (France) (100 per cent)
	HSBC Epargne Entreprise (France) (100 per cent)
	HSBC REIM (France) (100 per cent)
Abroad	HSBC Global Asset Management (Switzerland) (50 per cent)

Insurance

France	HSBC Assurances Vie (France) (100 per cent)

Subsidiaries and equity investments

France	Valeurs Mobilières Elysées (100 per cent)
	Société Française Suisse (100 per cent)
Abroad	Charterhouse Management Services Ltd (100 per cent)

Stated percentages indicate the group’s percentage of control.
The subsidiaries are classified in the area where they principally operate.

Summary business activities of HSBC Continental Europe's principal subsidiaries at 31 December 2020

Commercial Banking

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
HSBC Factoring (France)	**2,715,393**	3,793,722	137,835	122,016	**15,729**	14,269	**100**	100
	HSBC Factoring (France)'s activity has ben impacted by Covid-19 crisis with a turnover decrease of 8,5 per cent to reach EUR 20 million at the end of December 2020. Net income is up for 10 % despite the Covid-19 crisis, after an increase of 30 % in 2019.							

Global Banking and Markets

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
HSBC SFH (France)	**3,376,820**	4,381,071	**114,225**	114,668	**387**	874	**100**	100
	HSBC SFH (France) is a company dedicated to refinancing HSBC Continental Europe by issuing covered bonds secured by home loans (cover pool). HSBC SFH (France) launched its first issue on 20 January 2010. On 28 October 2020, the bonds of EUR 1 billion, issued on 28 October 2013, with a seven year maturity and having a coupon of 1,875 per cent matured and has been repaid to the investors. At 31 December 2020, issues totaled EUR 3.3 billion secured by a cover pool of EUR 4 billion.							
HSBC Leasing (France)	**837,951**	911,757	**360,684**	341,650	**19,034**	99,414	**100**	100
	HSBC Leasing (France) specialises in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. It operates more particularly in the aeronautics sector by financing assets on behalf of airlines. The equity interests in 2020 totaling EUR 0,8 billion, a decrease of 11 per cent compared to 2019.							
HSBC Real Estate Leasing (France)	**983,745**	1,350,048	**105,937**	98,927	**7,010**	7,258	**100**	100
	The net income for this subsidiary specialised in real estate leasing dropped by 3,5 per cent compared to 2019. Production this year was non-existent due to the pandemic, as opposed to a EUR 99 million production in 2019. Portfolio contains 304 buildings, one of which is under construction.							

Asset Management

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
HSBC Global Asset Management (France)	**133,392**	140,445	**57,938**	60,543	**16,514**	19,632	**100**	100
	Profit before tax fell, reflecting lower fees mainly due the fall of equity market in March 2020 (Covid 19 crisis) and penalising the year 2020. Assets managed and distributed amounted to EUR 86.5 billion compared with EUR 83.8 billion at end 2019. As in 2019, HSBC Global Asset Management (France) win some awards such as: • Multi-Asset *(sur 1 an et 3 ans) pour le produits* Multi-Asset Factors • Obligations ('ISR'), *2ème place (Les Globes de la Gestion)* • Obligations 'ISR Government Bond', *Meilleur fonds Obligataire ISR (Etica -Italie)* • HSBC Continental Europe '*Meilleur Gamme de Fonds Diversifiés' (certificat Banques de Réseau)*							
HSBC Epargne Entreprise (France)	**74,022**	57,047	**31,796**	21,252	**(4 381)**	(4 455)	**100**	100
	HSBC Epargne Entreprise (France) is an investment company, wholly-owned by HSBC Continental Europe, specialising in employee savings & pensions accounts administration for the HSBC Group in France. It has a clientele of 2,300 companies and manages 217,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totaling EUR 3.8 billion as of 31 December 2020, making the Group the seventh-largest employee savings manager in France. Its products are distributed via the HSBC Group distribution network in France, covering the needs of companies of all sizes.							
HSBC REIM (France)	**18,130**	18,925	**10,502**	8,938	**6,564**	6,333	**100**	100
	HSBC REIM (France) is the subsidiary of the Asset Management business specialising in real estate management on behalf of third parties. As of 31 December 2020, the market value of assets under management was EUR 3.3 billion. The main fund managed, Elysées Pierre is a Classic Real Estate Investment Placement Company which celebrated its 30th anniversary in 2016. Its capitalisation of more than EUR 2.4 billion ranks it among the top 10 REITs on the market and the 126 component buildings of its assets are mainly offices in Ile-de-France, one of the deepest and most liquid markets in Europe and in the world. This fund has a return and valuation strategy that results in an internal rate of return ('IRR') over 10 years as at 31 December 2019 at 8.2 per cent. The specialised press regularly praised the management qualities and the long-term performance of the SCPI.							

Insurance

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
HSBC Assurances Vie (France)	**23,301,030**	23,451,308	**891,769**	822,326	**63,927**	58,870	**100**	100
	HSBC Assurances Vie (France) manufactures a wide range of products and services to meet HSBC Group customer's needs (individuals, professionals and companies) in terms of life insurance, pension and protection. In 2020, impacted by the sanitary and economic crisis, insurance manufacturing gross written premium on saving stands at EUR 1,312 million (35 per cent down compared to 2019), including EUR 505 million on unit-linked contracts, which account for 39 per cent of new money compared to 25 per cent last year. The net new money was negative for HSBC Continental Europe Retails Network by EUR 175 million in 2020, of which a positive net new money of EUR 268 million related to unit-linked contracts. The life insurance liabilities managed by the insurance company now stand at EUR 23.2 billion compared to EUR 23.3 billion last year. Within these, unit-linked contracts represent EUR 5.1 billion, increased by EUR 0.5 billion compared to 2019, due to the positive net new money and the favourable variation of the fair value of contracts. The arbitrage movement towards unit-linked contracts amounts to + EUR 96 million on the HSBC Continental Europe Retails Network.							

Own investments

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Société Française et Suisse ('SFS')	**9,496**	9 502	**9,492**	9 496	**(4)**	5	**100**	100
	Société Française et Suisse has yielded profit loss compared to 2019. The total balance sheet is mainly composed of free cash flow.							
Valeurs Mobilières Elysées	**49,830**	56 668	**49,517**	54 804	**(623)**	4 658	**100**	100
	Valeurs Mobilières Elysées is a subsidiary in which principal investments are booked under HSBC France. These investments include listed midcaps and Private Equity funds. HSBC having decided in 2009 not invest any further in listed midcap shares, *Valeurs Mobilières Elysées* manages a portfolio of gradually declining listed shares. No new Private Equity investments will be booked under *Valeurs Mobilières Elysées*, therefore this portfolio will also decline gradually. Because of the pandemic, asset valuation has taken a hit, therefore generating loss in 2020.							

Investment policy

2015

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC Continental Europe, to capital increase made by HSBC Middle East Leasing Partnership.

  Cost: USD 150.5 million.

- Capital decrease of *Valeurs Mobilières Elysées*.

  Proceeds: EUR 50.0 million.

- Capital decrease of HSBC Services (France).

  Proceeds: EUR 20.9 million.

2016

- Capital decrease of CCF Charterhouse GmbH & Co. Asset Leasing KG, owned up to 99 per cent by HSBC Leasing (France).

  Proceeds: EUR 36.8 million.

- Sale of Visa Europe share to Visa Inc.

  Capital gain: EUR 108 million.

2017

- Investment increase by HSBC Leasing (France), a wholly-owned subsidiary of HSBC Continental Europe, in the joint operation HSBC Middle East Leasing Partnership.

  Cost: USD 100.3 million.

2018

- Acquisition by HSBC Continental Europe of certain assets and liabilities held by HSBC Bank plc Athens Branch.

  Amount of the investment: EUR 1.

- HSBC Continental Europe acquires 100 percent of the capital of HSBC Institutional Trust Services (Ireland) DAC from HSBC Securities Services Holdings (Ireland) DAC, itself a subsidiary of HSBC Bank plc.

  Amount of investment: USD 21.5 million .

- HSBC Continental Europe acquires 100 per cent of the share capital of HSBC Bank Polska S.A. from HSBC Bank plc Paris Branch.

  Amount of the investment: EUR 88.4 million.

2019

- Acquisition by HSBC Continental Europe of certain assets and liabilities held by HSBC Bank plc in the Netherlands, Spain, Ireland, Czech Republic, Italy, Belgium and in Luxembourg.

  Amount of the investment: EUR 370.3 million.

2020

- No material transactions to report.

Proposed resolutions to the Combined General Meeting to be held on 11 March 2021

First resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2020, and the report on corporate governance and the Statutory Auditors' report relating thereto, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

Second resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders, having noted that the year ended 31 December 2020 shows a net result of EUR - 906,098,899.83, hereby approve the proposed distribution of this net result made by the Board of Directors and resolve to appropriate it as follows:

Net result for the year	EUR - 906,098,899.83
Plus retained profits	EUR 3,184,897,620.24
Total sum available for distribution	EUR 2,278,798,720.41

To be distributed as follows:

Retained earnings	EUR 2,278,798,720.41

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

Year	Net dividend per share
2017	EUR 1.66
2018	-
2019	-

Dividends paid in respect of the three previous years are eligible for the tax deduction referred to in article 158 paragraph 3.2 of the General Tax Code.

Third resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2020, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fourth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in article L. 225-40 of said Code.

Fifth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby ratify the co-optation of Mr Stephen O'Connor decided by the Board on 12 February 2021 to replace Mr Nuno Matos, who resigned, for the remainder of the term of office of his predecessor, that is until the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2021.

Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mrs Carola Gräfin von Schmettow, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2023.

Seventh resolution

Voting under the quorum and majority conditions to transact ordinary business, in accordance with article L. 511-73 of the French Monetary and Financial Code, the shareholders hereby issue a favourable opinion on the aggregate amount of compensation of all kinds paid in 2020 to categories of personnel as referred to in Article L. 511-71 of the French Monetary and Financial Code having a significant impact on risks, which amounts to EUR 71,482,332.

Eighth resolution

Voting under the quorum and majority conditions to transact special business, and having heard and considered the report of the Directors, the shareholders hereby decide to amend Article 10 of the Articles of Association, as follows:

- The first sentence of the first indent becomes: "– *the eight (8) members at the least and sixteen (16) at the most, appointed by the Ordinary General Meeting;*"
- The penultimate paragraph becomes: "*The Board of Directors is thus composed of twelve (12) Directors at the least and twenty (20) at the most.*"

Ninth resolution

Voting under the quorum and majority conditions to transact ordinary and special business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

Information on HSBC Continental Europe and its share capital

Information on the company

Name

HSBC Continental Europe. New name of HSBC France since 1 December 2020.

Commercial name

HSBC and, for the Private Banking business, HSBC Private Banking.

Date of incorporation

1894.

Registered office

38 avenue Kléber – 75116 Paris – France.

Legal Form

Société Anonyme incorporated under the laws of France, governed notably by the French Commercial Code. The company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

Term

The company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate purpose (article 3 of the Articles of Association of HSBC Continental Europe)

The company's corporate purpose is the transaction in all countries of any and all banking, finance, lending, guarantee, trading, brokerage or fee-earning business together with the provision of any and all investment services and related services within the meaning of articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, and more generally, to conduct within the limits permitted by law any and all commercial, industrial or agricultural, securities or real estate, financial or other operations as well as to provide any and all services directly or indirectly connected with or which may facilitate the achievement of the foregoing object.

Trade and companies Register, APE code and LEI

775 670 284 RCS Paris – APE 6419Z.

LEI: F0HUI1NY1AZMJMD8LP67.

Legal and regulatory framework

Subject to the laws and regulations relating to credit institutions, including articles in the French Monetary and Financial Code applicable to them, the company is governed by commercial law, including articles L. 210-1 and following of the French Commercial Code and its Articles of Association.

HSBC Continental Europe is a credit institution licensed as a bank. As such, the company may conduct all banking operations. It is, moreover, authorised to perform any services or related investment mentioned in articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, with the exception of operating a multilateral trading facility. In its capacity as provider of investment services, it is subject to the regulations applicable to them under the supervision of the *Autorité des marchés financiers*.

It is particularly subject to compliance with a number of prudential rules and controls by the *Autorité de contrôle prudentiel et de résolution* and the European Central Bank. Its Senior Management and all the people it employs are bound by professional secrecy, violation of which is punishable by law. It is also an insurance broker.

Documents and information on display

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

HSBC Continental Europe – 38 avenue Kléber, 75116 Paris, France.

The Articles of Association of the Company can be found in the 'About HSBC' section of the HSBC Continental Europe website www.hsbc.fr.

The information made available on hsbc.fr website are not part of the Universal Registration Document, unless the informations are included by reference in the current Registration Document.

Financial year

From 1 January to 31 December.

Distribution of profits

A minimum of 5 per cent of the net profit for the year, less any prior year losses, is transferred to the legal reserve until such time as it has reached one tenth of the company's share capital and at any time after that should it fall back below the minimum requirement.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the company's share capital, no distribution may be made if total shareholders' funds are, or would as a result, become lower than the amount of the company's share capital plus any non-distributable reserves.

By way of derogation to the provisions of this article, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

Form of shares

Shares have to be registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights

Each fully paid up share entitles the holder to one vote.

Transfer of shares

The transfer of shares takes place by way of a transfer from one account to another.

There are no restrictions on disposals of shares or negotiable securities giving access to the share capital in cases of inheritance or liquidation of matrimonial property, or on disposals to a spouse, descendant or ascendant.

Any other disposals or transfers of shares or negotiable securities giving access to the capital, including between shareholders, whether free of charge or for valuable consideration, whether the said disposals or transfers take place by way of donation, exchange, disposal, capital contribution, merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be made by the Board of Directors, by a majority of the Directors present or represented. The transferor shall be entitled to vote, if he is a Director. The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by article 1843-4 of the French Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it to the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by article 1843-4 of the French Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by article 1843-4 of the French Civil Code.

Custodian and financial service

CACEIS Corporate Trust.

History of the company

1894: The *Banque Suisse et Française ('BSF')* is founded. It will become the *Crédit Commercial de France ('CCF').*

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1994: Centenary of CCF.

2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

2002: Crédit Commercial de France changes its legal name to CCF.

2005: CCF becomes HSBC France and certain of its subsidiaries change their legal name and adopt the HSBC brand. HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie constitute the new HSBC network.

2008: Disposal by HSBC France of its regional banking subsidiaries (*Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest*).

2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

2011: Merger of HSBC Private Bank France with HSBC France.

2013: HSBC France acquires HSBC Assurances Vie (France).

2017-2018: Creation of branches in Greece, the United Kingdom, Belgium, Luxembourg, Ireland, Italy, Poland, the Czech Republic, the Netherlands and Spain.

January 2018: Acquisition of certain assets and liabilities from the HSBC Bank plc branch in Greece and launch of the activities of the HSBC France branch in Greece.

August 2018: Acquisition of HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC.

February 2019: Acquisition of certain assets and liabilities from the HSBC Bank plc branches in Belgium, Ireland, Italy, the Czech Republic, the Netherlands and Spain and launch of the activities of the HSBC France branches in those countries.

March 2019: Acquisition of certain assets and liabilities from the HSBC Bank plc branch in Luxembourg and launch of the activities of the HSBC France branch in this country.

April 2019: Merger of HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC with HSBC France.

May 2019: Creation of a branch in Sweden and launch of the activities in this branch in October 2019.

December 2020: HSBC France becomes HSBC Continental Europe and transfers its registered office 38 avenue Kléber 75116 Paris.

Material contracts

HSBC Continental Europe currently has no material contracts, other than those concluded as part of the normal course of its business, that gives any member of the Group a right or obligation having a material impact on the issuer's ability to fulfil its obligations to holders of issued securities.

Information on the share capital

At 31 December 2020, the share capital amounted to EUR 491,155,980 divided into 98,231,196 fully paid up shares, each with a nominal value of EUR 5.

Movements in share capital

	Number of shares	Share capital in euros	Share premium in euros
At 1 Jan 2020	**98,231,196**	**491,155,980**	**2,137,326,990.33**
Increase (Reduction) during the year	—	—	—
At 31 Dec 2020	**98,231,196**	**491,155,980**	**2,137,326,990.33**
At 1 Jan 2019	73,316,988	366,584,940	475,040,848.70
Increase (Reduction) during the year	24,914,208	124,571,040	1,662,286,141.63
At 31 Dec 2019	98,231,196	491,155,980	2,137,326,990.33
At 1 Jan 2018	67,437,827	337,189,135	16,139,054.64
Increase (Reduction) during the year	5,879,161	29,395,805	458,901,794.06
At 31 Dec 2018	73,316,988	366,584,940	475,040,848.70
At 1 Jan 2017	67,437,827	337,189,135	16,139,054.64
Increase (Reduction) during the year	—	—	—
At 31 Dec 2017	67,437,827	337,189,135	16,139,054.64
At 1 Jan 2016	67,437,827	337,189,135	16,139,054.64
Increase (Reduction) during the year	—	—	—
At 31 Dec 2016	67,437,827	337,189,135	16,139,054.64

Ownership of share capital and voting rights at 31 December 2020

HSBC Bank plc has owned 99.99 per cent of the share capital and voting rights since 31 October 2000. This percentage has not varied since then. HSBC Bank plc is a wholly-owned subsidiary of HSBC Holdings plc, a company quoted in London, Hong Kong, New York and Bermuda.

Dividend and payout policy

	2020	2019	2018	2017	2016
Number of shares at 31 December	**98,231,196**	98,231,196	73,316,988	67,437,827	67,437,827
Average number of shares outstanding during the year	**98,231,196**	92,571,906	69,531,366	67,437,827	67,437,827
EPS [1]	**EUR (10.43)**	EUR (0.41)	EUR (0.24)	EUR 2.63	EUR 4.61
Net dividend	**—**	—	—	EUR 1.66	EUR 4.00
Exceptional dividend	**—**	—	—	EUR 4.45	—
Dividend + tax credit	**—**	—	—	—	—
Payout[2]	**—**	—	—	232.3%	62.8%

1 *Calculated on the weighted average number of shares outstanding after deducting own shares held.*
2 *Dividend paid as a percentage of reported earnings.*

At the Annual General Meeting to be held on 11 March 2021, the Board will propose not to distribute a dividend in respect of year 2020.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Persons responsible of the Registration Document and for auditing the financial statements

Person responsible for the Registration Document

Mr Jean Beunardeau, Chief Executive Officer

Statement by the person responsible for the Registration Document

I declare that the information contained in this Registration Document is in accordance with the facts and that it makes no omission likely to affect its meaning.

I declare, to the best of my knowledge, that the accounts have been prepared in accordance with applicable accounting standards and are a fair reflection of the assets, liabilities, financial position and profit or loss of the company and all the undertakings included in the consolidation scope, and that the Management Report of which the cross reference table can be found on page 283 presents a fair view of the company's business, results and financial position and that of all the undertakings included in the consolidation scope, as well as a description of the main risks and uncertainties to which they are exposed.

Paris, 24 February 2021

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

Incumbents	Date first appointed	Date re-appointed	Date term ends
PricewaterhouseCoopers Audit[1]	2015	2018	2024
Represented by Agnès Hussherr[2] 63, rue de Villiers 92200 Neuilly-sur-Seine			
BDO Paris Audit & Advisory[3,4]	2007	2018	2024
Represented by Michel Léger[5] 43-47, avenue de la Grande Armée 75116 Paris			

1 *Member of the Compagnie Régionale des Commissaires aux comptes* of Versailles.
2 *PricewaterhouseCoopers Audit represented by Agnès Hussherr as of financial year 2020.*
3 *Member of the Compagnie Régionale des Commissaires aux comptes* of Paris.
4 *Previous corporate name: BDO France – Léger & Associés.*
5 *BDO Paris Audit & Advisory represented by Michel Léger as of financial year 2019.*

Statutory Auditors' fees paid in 2020 within the HSBC Continental Europe group are available in Note 6 to the consolidated financial statements on page 190.

Cross-reference table

The following cross-reference table refers to the main headings required by the European regulation 2017/1129 (Annex I and Annex II) implementing the directive known as 'Prospectus' and to the pages of the Universal Registration Document 2019 D.20-0071.

Sections of Annex I of the EU Regulation 2017/1129		Pages in 2019 Universal Registration Document	Pages in this 2020 Universal Registration Document
1	**Persons responsible, third party information, experts' reports and competent authority approval**		
1.1	Persons responsible	page 268	page 280
1.2	Experts' reports	N/A	N/A
1.3	Third party information	N/A	N/A
1.4	Competent authority approval	N/A	N/A
2	**Statutory auditors**	page 269	page 281
3	**Risk factors**	pages 78 to 150	pages 80 to 163
4	**Information about the issuer**	page 265	page 277
5	**Business overview**		
5.1	Principal activities	pages 4, 9 to 19 and 229	pages 4, 9 to 20 and 240
5.2	Principal markets	pages 4, 9 to 19 and 229	pages 4, 9 to 20 and 240
5.3	Important events	pages 172 to 173, 229 to 230	pages 182 to 173, 240 to 241
5.4	Strategy and objectives	pages 4 to 9	pages 4 to 9
5.5	Potential dependence	N/A	N/A
5.6	Founding elements of any statement by the issuer concerning its position	pages 4 and 19	pages 4 and 20
5.7	Investments	pages 218 to 221, 259 to 262, 272 to 273	pages 227 to 230, 272 to 275, 284 to 285
6	**Organisational structure**		
6.1	Brief description of the group	pages 3 to 20, 252 and 259 to 262	pages 3 to 21, 263 and 272 to 275
6.2	Issuer's relationship with other group entities	pages 259 to 261	pages 272 to 274
7	**Operating and financial review**		
7.1	Financial condition	pages 156, 158, 227 to 228	pages 165, 167, 238 to 239
7.2	Operating results	pages 12 to 19, 156 and 227	pages 13 to 20, 165 and 238
8	**Capital resources**		
8.1	Issuer's capital resources	pages 160 and 243	pages 169 and 255
8.2	Sources and amounts of the issuer's cash flows	page 159	page 168
8.3	Borrowing requirements and funding structure	pages 78, 119 to 121, 151	pages 80, 129 to 130, 132 to 135
8.4	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect the issuer's operations	N/A	N/A
8.5	Sources of funds needed	N/A	N/A
9	**Regulatory environment**	pages 11 and 151	pages 11 to 12, 142 to 143
10	**Trend information**	pages 5, 8 and 9	pages 4 to 5, 8 and 9
11	**Profit forecasts or estimates**	N/A	N/A
12	**Administrative, management and supervisory bodies and senior management**		
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12.2	Administrative and management bodies conflicts of interests	page 38	page 39
13	**Remuneration and benefits**		
13.1	Amount of remuneration paid and benefits in kind granted	pages 39 to 49, 176 to 180	pages 40 to 49, 186 to 190
13.2	Total amounts set aside or accrued by the issuer or its subsidiaries to provide for pension, retirement or similar benefits	pages 39 to 49, 176 to 180, 244 to 245	pages 40 to 49, 186 to 190, 255 to 256
14	**Board practices**		
14.1	Date of expiration of the current term of office	pages 22 to 29	pages 23 to 31
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 32 to 33, 36	pages 33 to 34, 36 to 37
14.4	Corporate governance regime	page 22	page 23
14.5	Potential material impacts on the corporate governance	N/A	N/A
15	**Employees**		
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15.2	Shareholdings and stock options	page 44	page 44 to 45
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 265 to 267	pages 277 to 279
16.2	Different voting rights	pages 265	pages 277
16.3	Control of the issuer	pages 22 to 23, 269	pages 23 to 24, 281
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**	page 50 to 52, 216 to 217, 218 to 221, 252 to 253	page 50 to 52, 225 to 226, 227 to 230, 263 to 264

18	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
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18.2	Interim and other financial information	N/A	N/A
18.3	Auditing of historical annual financial information	pages 222 to 225 and 254 to 256	pages 231 to 236 and 265 to 269
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18.7	Significant change in the issuer's financial position	pages 19, 218 and 251	pages 19, 226 and 262
19	**Additional information**		
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20	**Material contracts**	page 266	page 279
21	**Documents available**	page 265	page 277

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1	**Information to be disclosed about the issuer**	page 2	page 2

According to article 28 of the European Regulation 809/2004, are included by reference in this Registration Document:

- the consolidated financial statements for the year ended 31 December 2018 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 146 to 219 and 220 to 224 of reference document D.19-0065 filed with the AMF on 20 February 2019; the information can be found here : https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2018/annual-results/hsbc-france/190220-hbfr-ara-2018-fr.pdf
- the consolidated financial statements for the year ended 31 December 2019 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 155 to 220 and 222 to 225 of reference document D.20-0071 filed with the AMF on 19 February 2020; the information can be found here : https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2019/annual-results/hsbc-france/200219-hbfr-ara-2019-fr.pdf

These documents are available on the website www.hsbc.fr and on that of the *Autorité des marchés financiers* www.amf-france.org.

Anyone wishing to obtain additional information on the HSBC Continental Europe group can, without obligation, request the documents by mail:

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Consolidated financial statements	pages 164 to 230
Management report Refer to the Management report cross ref table Statement by person responsible	pages 283 and 280
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Capital and Leverage Management	pages 129 and 130
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