HSBC France

Registration document and annual financial report 2017

HSBC

Contents

Presentation of information

This document was filed with the *Autorité des marchés financiers* ('AMF') on 22 February 2018 in accordance with Article 212-13 of the AMF's General Regulation. It may be used in support of a financial transaction when supplemented by a transaction note that has received approval from the AMF. This document has been prepared by the issuer and is binding on its signatories.

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Cautionary statement regarding forward-looking statements

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

These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC France plc 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.

Highlights

	31 Dec 2017	31 Dec 2016
For the year (€m)		
Profit before tax (reported basis)	**219**	432
Profit before tax (adjusted basis)[1]	**333**	663
Net operating income before loan impairment charges and other credit risk provisions[2]	**1,907**	2,317
Profit/(loss) attributable to shareholders of the parent company	**177**	310
At year end (€m)		
Total equity attributable to shareholders of the parent company	**5,676**	5,842
Total assets	**167,544**	169,423
Risk-weighted assets	**35,379**	36,016
Loans and advances to customers (net of impairment allowances)	**44,856**	41,327
Customer accounts	**38,277**	34,220
Capital ratios (%)		
Common equity tier 1[3]	**13.1**	13.2
Tier 1[3]	**13.5**	13.2
Total capital[3]	**14.1**	13.2
Performance, efficiency and other ratios (annualised %)		
Return on average shareholders' equity[4]	**3.1**	5.3
Pre-tax return on average risk-weighted assets (adjusted basis)	**1.0**	2.0
Cost efficiency ratio (adjusted basis)[5]	**78.6**	67.3
Liquidity Coverage Ratio[6]	**149.0**	122.0

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 9 to10.*
2 *Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*
3 *Capital ratios as detailed on the capital section on pages 122 to 123.*
4 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity*
5 *Adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before loan impairment charges and other credit risk provisions (adjusted). Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*
6 *Computed in respect of the EU Delegated act.*

Presentation of activity and strategy

HSBC France is part of HSBC Group, one of the largest banking groups in the world. In France, HSBC seeks to partner French corporates in respect of their international development and of retail clients for their wealth management needs.

Mission of HSBC Group

Main strategic development pillars

The HSBC Group has been developing a universal banking model which enables the bank to offer the full range of banking products and services to the full spectrum of clients, from individuals to multinational corporations, which want to benefit from the Group's international footprint and financial strength.

The Group's strategy and strategic direction is embedded in HSBC's strategy, which aims to capture value from its international network. HSBC's strategy is built around long-term trends and reflects its distinctive advantages.

Distinctive advantages

In this environment, HSBC's competitive advantages come from:

- unrivalled global presence: HSBC's network provides access to almost 90 per cent of global trade and capital flows. We enable clients to participate in the most attractive global growth opportunities and offer leading product capabilities to support global economic flows;
- universal banking model: we serve the full range of banking customers through four global businesses, from individual savers to large multinational corporations. This universal banking model enables HSBC to effectively meet its clients' diverse financial needs and generate attractive returns for shareholders.

Strategic priorities

The Group has set out a long-term strategy around two main pillars:

- develop HSBC's international network to facilitate international trade and capital flows and serve HSBC's clients as they grow from small enterprises into large multinationals.
- invest in wealth and retail businesses with local scale to make the most of global social mobility, wealth creation and long-term demographic changes in HSBC's priority markets. Its network is underpinned by its four interconnected, global businesses that share balance sheets and liquidity, in addition to strong commercial links; HSBC's businesses allow us to support clients, from retail customers to the world's largest companies.

Together, these initiatives aim at creating value for the Group's clients and shareholders and contribute to its sustainable development.

A strategy implemented in France

HSBC operates in 67 countries and territories and France is one of its three priority markets in Europe where the Group has been developing the full range of businesses and established global platforms especially for its Euro-denominated activities.

HSBC France can rely on HSBC Group's international network and strong brand to differentiate from competitors and service clients with value-added products and services.

HSBC France aims at developing its activity across all businesses and:

- continue to focus on mass affluent individuals and invest in digital in Retail Banking and Wealth Management and Commercial Banking;
- leverage the Group's strengths, notably its international connectivity to grow revenue in Commercial Banking;
- reinforce its positioning in Global Banking and Markets in Paris as a strategic platform for the Group;
- foster referrals across business lines;
- modernise its IT systems to gain efficiency and improve the quality of client service.

Initiatives to support this strategy in France

Throughout 2017 HSBC France has developed its offering of products and services with a view to improve the customer experience and introduce an omni-channel banking approach.

Key digital deployments were focused on improving customer experience on all channels and the implementation of additional digital functionalities as digital onboarding and digital lending, or subscription of life-wrapped investment contracts online.

In 2018, HSBC France will continue to develop its multichannel and digital functionalities.

Products and services

The HSBC Group is organised around four Global Business Lines: Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB'), Global Banking and Markets ('GB&M') and Global Private Banking ('GPB').

HSBC's global businesses set globally consistent business strategies and operating models. They manage the products and business propositions offered to customers.

Retail Banking and Wealth Management ('RBWM')

RBWM comprises Retail Banking, Wealth Management, Asset Management and Insurance. RBWM provides products and services to individuals across the world to manage their finances, save and invest for their future. RBWM offers solutions from day-to-day transaction banking, including short- and long-term financing to insurance and investment products, advising clients to help them manage and protect their financial wealth.

HSBC France has the ambition to become the leading bank for wealth management. With a significant presence in all major cities as well as improved digital solutions, HSBC France can rely on expert teams, specialised by client segment and on dedicated propositions to meet HSBC client's specific needs. HSBC France is undertaking initiatives to:

- grow the customer base, improving digital acquisition and cross-selling capabilities;
- improve customer experience and deliver IT core banking change;
- grow the wealth business, developing an omni-channel approach on all products and journeys, increasing expertise and productivity;

- invest in digital and deploy online services, while simplifying processes to serve clients who increasingly require mobile and online access to banking services.

The development of its strategic client segments (Premier & Advance, Professionals and International), the strengthening of client relationship through a best-in-class wealth management and credit offering and of its distribution capabilities, including digital, are the three key strategic ambitions of RBWM in France.

The development of the wealth management strategy also relies on the expertise of product design and management teams within life insurance and asset management subsidiaries, which allow HSBC France to offer a broad, competitive product range to its clients.

Commercial Banking ('CMB')

CMB serves corporate customers from small enterprises focused primarily on their domestic markets, through to large corporates operating globally. CMB supports its customers with tailored relationship management and financial solutions to allow them to operate efficiently and to grow. This includes providing them with optimising working capital, term loans, payment services, international trade facilitation, project finance and the expertise for acquisitions and access to foreign exchange markets. HSBC is also a leader in the development of the Chinese currency, the Renminbi, with capacity to deal in more than 50 countries.

CMB's ambition in France is to be the leading international bank for French corporates. CMB offers the full range of banking products and services, dedicated relationship managers and product experts as well as the Group's international network to help customers develop their activities.

CMB has priorities to drive growth in France:

- build on its momentum of growth and international connectivity with Large Corporates and Mid-Market companies thanks to enhanced collaboration with Global Banking;
- ensure a continued focus on international corridor opportunities and client acquisition in the Mid-Market;
- invest in its digital platforms in order to propose tools constantly improved and facilitate its customers' operations;
- strengthen our digital platform and international proposition for Business Banking.

CMB will also continue to focus on its return on capital employed by developing business on strategic and profitable activities and clients.

Global Banking and Markets ('GB&M')

GB&M operates in key capital markets, providing transactional and financing solutions to major corporate and institutional clients worldwide. GB&M is positioned as a key partner to assist customers in their projects and activities in France and globally, thanks to the HSBC Group's local and international capabilities. HSBC offers a full range of banking solutions, including advisory, vanilla and structured financing products, merger and acquisitions, access to debt and equity markets, project finance, Global Liquidity and Cash Management, Global Trade and Receivable Finance, and a wide range of market capabilities (rates, foreign exchange and equities).

The goal of GB&M in France is to be a 'Top Five' bank to priority clients. Its business model and strategy support this ambition.

HSBC France will continue to fully play its role as the strategic platform for Euro-denominated rates products and all currencies structured rates derivatives, while maximising synergies with other countries and strengthening its range of products and services for the largest corporates. HSBC France will continue to adapt the business to the changing regulatory environment while maintaining its reputation and leading position in league tables.

Priorities for GB&M in France are the following:

- be positioned as a top bank in key advisory and financing mandates;
- maintain strong positioning on key products' strengths;
- help clients seize international growth opportunities, leveraging its expertise and global network, connecting emerging and developed economies;
- Continue to increase collaboration with Commercial Banking ('CMB') and Retail Banking Wealth Management ('RBWM').

Global Private Banking ('GPB')

Leveraging the HSBC Group's expertise and strongly tailored solutions, the Private Bank teams work closely with clients and other HSBC business lines to provide solutions to grow, manage and preserve wealth today and for the future. GPB serves high net worth individuals and families, offering tailored products and services, through the expertise of its discretionary and advisory management teams.

Priorities for GPB in France are the following:

- Continue to leverage Collaboration;
- Maximise opportunities with existing client base;
- Leverage Investment & Credit value proposition;
- Improve customer experience thanks to technical infrastructure enhancement and process digitalisation.

GPB will continue to develop through collaboration with other business lines to enlarge its client base and enrich its proposition in terms of services and products, notably in discretionary management and life insurance. The application of the highest international standards, enhanced risk management controls, tax transparency and simpler processes also remain priorities for Private Banking.

Change of the organisational structures of HSBC Group in France

HSBC France legal structures simplification programme has continued with the objective to exit unnecessary corporate structures, make disposals or intra-group structures mergers. Investment policy is described on pages 235.

Moreover, HSBC France has opened two branches abroad: one in Greece and one in the UK.

Management report

Environment

Macroeconomic environment

The world economy, mainly fuelled by emerging countries, posted in 2017 a better-than-expected activity. Indeed, downward risks which were perceived in 2016 as susceptible to weigh on growth, such as a weakening in international trade, a sudden monetary policy tightening or a fading economic activity in Europe, did not materialize. The slowdown recorded in 2016 thus has been corrected over 2017, which may see GDP growth rates above 2 per cent in the US and in Europe and still well beyond 6 per cent in China or India. This rebound will also be due by the exit from their 2016 recession of several emerging countries, notably Russia, Brazil, Argentina and Nigeria.

This context of a renewed optimism sustained stock markets, especially in the US where the business cycle may be the longest in their history. In spite of oil prices rising in the second semester and unemployment rates falling in most of the countries, a persistently weak inflation contributed to maintain still accommodative monetary policies. Admittedly, policy rates rose in some cases (three times in the US, twice in Canada, once in the UK), but the size of central banks' balance sheets and the low level of financial conditions indices remained permissive factors for debt to rise, in particular in the private sector. Also, global liquidity maintained at a high level and weak inflation expectations enabled long-term interest rates to stay, at the end of 2017, lower than what the consensus expected, particularly in the US and in the Eurozone.

The year 2017, moreover, witnessed a downward correction to the US dollar, which was significantly up at the end of 2016, as well as a higher synchronization in GDP growth rates in a large number of advanced and emerging countries. The diffusion of a stronger activity, as reflected in the acceleration in the international trade, did not prevent data surveys from posting at the end of 2017 leading indicators at their highest level since 2011, suggesting that the expansionary business cycle may continue to show a dynamic growth rate.

In Europe, although the UK saw economic activity decelerating and inflation rising after the sterling has depreciated, the Eurozone, despite the euro appreciation, posted a stronger-than-expected growth rate. Granted, gaps in performance still separate the main economies, but a strengthening in the recovery and a progressive increase in inflation over the next years led the ECB to announce in October 2017 a policy with less public and private assets purchases in 2018, at EUR 30 billion net per month until the end of September.

In France, the economic activity also stood better than forecasted, under the principal influence of a business investment which was stronger than expected. In spite of inflation remaining moderate, favourable to purchasing power, household consumption, hampered by the situation on the labour market, accelerated only lately. Regarding the net external trade, it has kept negatively weighing on the economic activity, due to a still weak competitiveness.

During the year 2017, CAC40 index grew by 9 per cent to 5,313 points and French government bonds' (OAT 10Y) yield went from 0.67 per cent to 0.78 per cent.

Regulatory environment

Since the adoption of Banking Union by the eurozone member states in 2014, HSBC France has been primarily supervised by the European Central Bank ('ECB') and the French Prudential Supervision and Resolution Authority *(Autorité de contrôle prudentiel et de résolution or ACPR)*. The latter remains responsible for certain areas, such as controls regarding obligations to combat money laundering and terrorist financing. HSBC France is also supervised by the *Autorité des Marchés Financiers ('AMF')* in its area of competence. Finally, as a member of the HSBC Group, HSBC France is subject to certain UK rules laid down by the Prudential Regulation Authority ('PRA') and by the Financial Conduct Authority ('FCA') regarding prudential and consumer protection matters.

Within the European Union, negotiations about achieving a deeper banking union continued in 2017, and could be completed in 2019. In particular, the talks are intended to transpose into European law various agreements already adopted at the international level through work done by the Basel Committee. The talks relate in particular to introducing a minimum leverage ratio for European banks, along with a structural long-term liquidity ratio for the most important banks such as HSBC France, and increasing their internal capacity for absorbing any losses. There are also plans to relax prudential requirements regarding the granting of loans to SMEs.

The European Commission formulated new proposals in autumn 2017 to allow the creation of a European deposit guarantee system. That would initially involve national systems being reinsured by the European Stability Mechanism ('ESM'), which the Commission has also proposed converting into a European Monetary Fund ('EMF'). A European regulation allowing the prudential impact of IFRS 9 'Financial Instruments', which came into force on 1 January 2018, to be spread over five years was published on 27 December 2017.

Also in late 2017, an international agreement was reached to finalise the Basel III reforms that were introduced after the 2008-2009 financial crisis. The agreement, which has yet to be transposed into European law, should be applicable progressively from 2022. In particular, it provides for greater restrictions on the internal models used to calculate capital requirements and an increase in the minimum leverage ratio for the largest financial institutions. New arrangements for measuring market risks for financial securities in the trading book ('fundamental review of the trading book' or FRTB) have yet to be specified.

In France, it should be noted that the financial stability council ('HCSF'), in December 2017 and against a background of rapid growth in lending to non-financial companies and consumers, said that it is planning to introduce a cap on lending by systemic banks to the most indebted resident large corporations equal to 5 per cent of their equity, and that in 2018 it could implement an additional countercyclical capital buffer for banks operating in France.

As regards HSBC France specifically, the European Central Bank carried out a Supervisory Review and Evaluation Process ('SREP') in 2017, as it has for all major eurozone institutions every year since the introduction of the Single Supervisory Mechanism ('SSM'). In particular, this process evaluated the business model of the bank, its governance and risk management and its capital and liquidity positions.

As part of the SREP, the European Central Bank notified HSBC France of a minimum total capital ratio of 12.63 per cent (phase-in ratio) from 1 January 2018. That figure, which includes both the mandatory minimum capital figure of 8 per cent, a 1.88 per cent capital conservation buffer and the Pillar 2 requirement ('P2R') of 2.75 per cent, was published by HSBC France on 5 December 2017. The ECB also provided Pillar 2 guidance ('P2G') to HSBC France.

UK withdrawal from the European Union

The period of uncertainty which followed the UK's decision to leave the EU is likely to continue until the UK's future relationship with the EU and the rest of the world is clearer. Given the complexity of ongoing negotiations, HSBC is working with customers as they adapt to this new environment and plan for what might follow.

Meeting customers' needs following the UK's departure from the EU will likely require adjustments to HSBC's cross-border banking model. HSBC France is committed to quickly adapt its activities portfolio to this new landscape and has initiated applications to operate branches in a number of EEA countries to facilitate meeting our customers needs.

Moreover, HSBC France opened a branch in the UK whose activity should start in 2018.

Through this period of uncertainty, HSBC's priorities are to continue to support its customers, take appropriate actions to mitigate risks and maintain stability, and deliver on HSBC's strategy. HSBC is actively monitoring its portfolio to identify if adjustments to HSBC's risk policy or appetite are required.

The impact of the restructuring required as a result of the UK withdrawal from the European Union has not been included in the following report.

Scope of the performance review

Performance is analysed below on the basis of consolidated financial statements for the HSBC France group under IFRS as defined in Note 1 to the consolidated financial statements page 132. Performance is also presented in brief for the 'France' geographical segment as used by HSBC Holdings plc in its analysis of geographical contributions to the HSBC Group's results.

HSBC France's performance on the basis of its individual financial statements, prepared in accordance with the generally accepted accounting principles applicable to credit institutions in France, is analysed in the note to the parent company financial statements entitled 'Highlights' page 198.

HSBC France Group's Consolidated Results

Summary consolidated income statement for the year ended

	31 Dec 2017	31 Dec 2016
	€m	€m
Net interest income	1,048	1,218
Net fee income	574	648
Net trading income	297	516
Net income/(expense) from financial instruments designated at fair value	609	258
Gains less losses from financial investments	107	121
Dividend income	5	2
Net earned insurance premiums	1,861	1,763
Other operating income	8	(11)
Total operating income[1]	**4,509**	4,515
Net insurance claims incurred, benefits paid and movement in liabilities to policyholders	(2,602)	(2,198)
Total operating income before loan impairment (charges)/release and other credit risk provisions[1]	**1,907**	2,317
Loan impairment charges and other credit risk provisions	(81)	(73)
Net operating income	**1,826**	2,244
Total operating expenses[1]	**(1,607)**	(1,812)
Operating profit	**219**	432
Share of profit in associates and joint ventures	—	—
Profit before tax	**219**	432
Tax expense	(43)	(120)
Profit for the year	**176**	312
Profit attributable to shareholders of the parent company	177	310
Profit attributable to non-controlling interests	(1)	2

1 *Total operating income and expenses includes significant items as detailed on pages 9 and 10.*

Net interest margin was EUR 1,048 million at end-December 2017, from EUR 1,218 million in the previous year. In an environment of ongoing low interest rates, although they rose slightly in the second half, margins on deposits and interest income on bond portfolios at the life assurance subsidiary continued to fall, although this was in part offset by positive volume effects across all business areas. Lending activity saw further volume growth in all business areas, but interest income suffered from the impact of low interest rates, notably in the retail mortgage segment against a background of continued high levels of renegotiations and early redemptions in the first half 2017.

Net fee income was EUR 574 million in 2017, compared with EUR 648 million in 2016. The change was mainly the result of Global Banking and Markets following high levels of advisory fees in 2016 and a decline in origination fees paid and received from other HSBC Group entities in relation to capital market transactions. There was also a reduction in commissions received on transactions involving business clients, offset by an increase in commissions from distributing investment products linked to trends in market indices.

Revenues from the trading portfolio fell from EUR 516 million in 2016 to EUR 297 million in 2017, mainly because of:

- rising trading revenue in fixed income markets, despite weaker fourth-quarter performance in adverse market conditions;
- a fall in balance sheet management revenue which, in 2016, included a gain on the partial discontinuation of macro hedging relationships under IAS 39 for EUR 193 million, partly offset by a EUR -71 million impact in the net interest margin;
- a positive impact (EUR 58 million) from recycling the revaluation reserve previously recognised in OCI linked with the FX effect from a leasing subsidiary located outside France;
- a gain on a derivative associated with a receivable on a Global Banking counterparty for EUR 82 million; that hedge enabled HSBC France to recover all of the loss on its receivable, which had been recognised as a loan impairment charge in an amount of EUR -82 million;
- the change in market value of trading debt in issue due to credit spread (EUR -86 million in 2017 and EUR 16 million in 2016;
- as regards the insurance company, the change in the market value of derivative instruments hedging its exposures; the counterpart of that EUR 17 million year-on-year decrease is the change in liabilities to policyholders (see below);
- certain significant items: the change in the market value of non-qualifying hedges, which was EUR 4 million, from EUR -27 million in 2016 and the change in the Debit Valuation Adjustment reserve, which amounts to EUR -28 million in 2017, from EUR -3 million in the previous year.

Revenue from financial instruments recognised at fair value was EUR 609 million from EUR 258 million in 2016. The change includes the significant increase in the market value of assets held by the life insurance company, partly with respect to unit-linked policies. The counterpart of that increase, caused by movements in market indexes, is the change in liabilities to policyholders (see below). The change also includes the positive change in fair-valued own debt due to the credit spread: having been EUR -11 million in 2016, the gain/loss has been recognised in other comprehensive income since the start of 2017.

Net profit on disposals of financial investments related in 2017 to the realisation of capital gains on available-for-sale securities in the Private Equity business, and in 2016 to the sale of Visa Europe shares to Visa Inc, the capital gain on which was EUR 108 million.

Insurance premium income for the year was EUR 1,861 million, up by comparison with EUR 1,763 million in 2016, reflecting firm inflows.

Other operating income came to EUR 8 million compared with EUR -11 million the previous year, mainly reflecting the change in life insurance PVIF[1] (EUR -3 million in 2017 versus EUR -26 million in 2016).

Net insurance claims incurred, benefits paid and movement in liabilities to policyholders were EUR -2,602 million in 2017, from EUR -2,198 million in 2016. This negative change should be seen in the light of the increase in the market value of hedging instruments and assets recognised at fair value by the insurance subsidiary.

Total operating income before loan impairment (charges)/ release and other credit risk provisions[1] was EUR 1,907 million for the year, from EUR 2,317 million in the previous year, reflecting the impact of non-economic and exceptional items, the satisfactory performance in GB&M and the lower interest margin in the banking business in France, caused by ongoing low interest rates.

Loan impairment charges came to EUR 81 million versus EUR 73 million in 2016. The increase was due to a loss on a receivable from a Global Banking counterparty totalling EUR 82 million, fully offset by the gain recognised on a hedging derivative associated with the receivable. Excluding that specific situation, which did not affect HSBC France's P&L, there was a net release of credit risk provisions because of an improvement in all business lines, involving both lower allowances and higher releases. That reflects both the improved financial situation of businesses and HSBC France's rigorous management of credit risk.

Operating expenses amounted to EUR 1,607 million in 2017, compared with EUR 1,812 million in 2016, when there was a goodwill impairment charge totalling EUR 127 million], a net litigation provision charge of EUR 13 million and expenses relating to the voluntary redundancy plan announced in September 2016. HSBC France is continuing its programme of spending and investment for growth as part of the HSBC Group's strategic initiatives (Costs to Achieve), particularly in the digital field. Excluding those items, operating expenses were under control and stable.

Profit before tax was EUR 219 million, down from EUR 432 million in 2016. Excluding non-recurring items, change in profits is mainly explained by Global banking and markets performance and lower credit-risk impairment charges in Commercial Banking being more than offset by weaker profit levels in Retail Banking and Wealth Management, caused by the low interest-rate environment.

Profit attributable to shareholders of the parent company in 2017 was EUR 177 million, from EUR 310 million in the previous year.

Change in reportable segments

During the second half of 2016, in accordance with the HSBC Groups approach, management made the decision to realign certain functions to a Corporate Centre. These include balance sheet management, legacy businesses and interests in associates and joint ventures. It also includes the results of our financing operations and central support costs with associated recoveries. The Group has reviewed central costs previously reported in Other and reallocated these costs to the global businesses where appropriate. Residual costs are reported within the Corporate Centre.

Basis of preparation

Global businesses are our reportable segments under IFRS 8. The global business results are assessed by the chief operating decision maker on the basis of adjusted performance that removes the effects of significant items from reported results. We therefore present these results on an adjusted basis. Reconciliations of reported and adjusted performance are presented on pages 9 and 10. HSBC France's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre. Where relevant, income and expense amounts presented include the results of inter-segment funding along with intercompany and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intragroup elimination items are presented in the Corporate Centre. A description of the Global businesses is provided on pages 11 to 13 of this document.

Non-GAAP financial measures

To make it easier to understand the performance review relating to the Group and its subsidiaries, HSBC has elected to supplement the accounting data published with a presentation of the main lines of business accounts on an 'adjusted' basis.

This approach consists of restating published figures for the effect of changes in scope and currency variations between the two periods under review, together with certain 'significant items', which are listed and quantified below where they concern HSBC France.

[1] *Present Value of In Force long-term insurance business; See Note [16c] to the consolidated financial statements.*

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

	Year ended 31 Dec 2017					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Reported revenue	**761**	**518**	**629**	**49**	**(50)**	**1,907**
Significant revenue items	**—**	**—**	**28**	**—**	**(4)**	**24**
– change in credit spread on debt under fair value option[2]	**—**	**—**	**—**	**—**	**—**	**—**
– debit valuation adjustment	**—**	**—**	**28**	**—**	**—**	**28**
– non-qualifying hedges	**—**	**—**	**—**	**—**	**(4)**	**(4)**
Adjusted revenue	**761**	**518**	**657**	**49**	**(54)**	**1,931**

	Year ended 31 Dec 2016[1]					
Reported revenue	901	580	664	45	127	2,317
Significant revenue items	(77)	(31)	3	—	38	(67)
– change in credit spread on debt under fair value option	—	—	—	—	11	11
– debit valuation adjustment	—	—	3	—	—	3
– non-qualifying hedges	—	—	—	—	27	27
– gain on sale of shareholding of Visa Europe	(77)	(31)	—	—	—	(108)
Adjusted revenue	824	549	667	45	165	2,250

1 *The comparative numbers are presented after the restatement explained in note 1.3 'Significant events during the year', in the section 'Changes in Business lines segmentation'.*
2 *From 1 January 2017, the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value were adopted. As a result, the effect of changes in those liabilities credit risk is presented in other comprehensive income.*

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

	Year ended 31 Dec 2017					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Reported operating expenses	**(758)**	**(345)**	**(373)**	**(43)**	**(88)**	**(1,607)**
Significant cost items	**14**	**—**	**9**	**—**	**67**	**90**
– impairment of goodwill	**—**	**—**	**—**	**—**	**—**	**—**
– costs to achieve	**14**	**—**	**5**	**—**	**62**	**81**
– costs associated with the UK's exit from the EU	**—**	**—**	**4**	**—**	**5**	**9**
– settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted operating expenses	**(744)**	**(345)**	**(364)**	**(43)**	**(21)**	**(1,517)**

	Year ended 31 Dec 2016[1]					
Reported operating expenses	(823)	(351)	(393)	(99)	(146)	(1,812)
Significant cost items	82	7	19	63	127	298
– impairment of goodwill	64	—	—	63	—	127
– costs to achieve	18	7	6	—	127	158
– settlements and provisions in connection with legal and regulatory matters	—	—	13	—	—	13
Adjusted operating expenses	(741)	(344)	(374)	(36)	(19)	(1,514)

1 *The comparative numbers are presented after the restatement explained in note 1.3 'Significant events during the year', in the section 'Changes in Business lines segmentation'.*

Net impact on profit before tax by business segment

	Year ended 31 Dec 2017					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Reported profit/(loss) before tax	**(8)**	**180**	**180**	**5**	**(138)**	**219**
Significant revenue items	**–**	**–**	**28**	**–**	**(4)**	**24**
Significant cost items	**14**	**–**	**9**	**–**	**67**	**90**
Adjusted profit/(loss) before tax	**6**	**180**	**217**	**5**	**(75)**	**333**
Net impact on reported profit and loss	**(14)**	**–**	**(37)**	**–**	**(63)**	**(114)**
	Year ended 31 Dec 2016[1]					
Reported profit/(loss) before tax	63	170	273	(55)	(19)	432
Significant revenue items	(77)	(31)	3	–	38	(67)
Significant cost items	82	7	19	63	127	298
Adjusted profit/(loss) before tax	68	146	295	8	146	663
Net impact on reported profit and loss	(5)	24	(22)	(63)	(165)	(231)

1 *The comparative numbers are presented after the restatement explained in note 1.3 'Significant events during the year', in the section 'Changes in Business lines segmentation'.*

Adjusted profit/(loss) for the period

	Year ended 31 Dec 2017					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Net interest income	**633**	**318**	**140**	**35**	**(78)**	**1,048**
Net fee income	**281**	**187**	**84**	**22**	**–**	**574**
Trading income	**(37)**	**–**	**345**	**5**	**8**	**321**
Other income	**(116)**	**13**	**88**	**(13)**	**16**	**(12)**
Total operating income before loan impairment charges and other credit risk	**761**	**518**	**657**	**49**	**(54)**	**1,931**
– external	**814**	**479**	**625**	**45**	**(32)**	**1,931**
– inter-segment	**(53)**	**39**	**32**	**4**	**(22)**	**–**
Loan impairment charges and other credit risk provisions	**(11)**	**7**	**(76)**	**(1)**	**–**	**(81)**
Net operating income	**750**	**525**	**581**	**48**	**(54)**	**1,850**
Total operating expenses	**(744)**	**(345)**	**(364)**	**(43)**	**(21)**	**(1,517)**
Operating profit	**6**	**180**	**217**	**5**	**(75)**	**333**
Share of loss in associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**
Adjusted profit before tax	**6**	**180**	**217**	**5**	**(75)**	**333**
	Year ended 31 Dec 2016[1]					
	€m	€m	€m	€m	€m	€m
Net interest income	731	337	160	36	(46)	1,218
Net fee income	289	194	144	21	–	648
Trading income	(19)	(1)	351	3	212	546
Other income	(177)	19	12	(15)	(1)	(162)
Total operating income before loan impairment charges and other credit risk	824	549	667	45	165	2,250
– external	883	484	562	42	279	2,250
– inter-segment	(59)	65	105	3	(114)	–
Loan impairment charges and other credit risk provisions	(15)	(59)	2	(1)	–	(73)
Net operating income	809	490	669	44	165	2,177
Total operating expenses	(741)	(344)	(374)	(36)	(19)	(1,514)
Operating profit	68	146	295	8	146	663
Share of profit in associates and joint ventures	–	–	–	–	–	–
Adjusted profit before tax	68	146	295	8	146	663

1 *The comparative numbers are presented after the restatement explained in note 1.3 'Significant events during the year', in the section 'Changes in Business lines segmentation'.*

Annual performance (adjusted results)

Adjusted net operating income before impairment charges was EUR 1,931 million as opposed to EUR 2,250 million in 2016. The decline was due in particular to a sharp fall in balance sheet management revenue which, in 2016, included a gain recognised on the partial discontinuation of macro hedging relationships under IAS 39 for EUR 122 million, along with the EUR 58 million positive impact from recycling the revaluation reserve previously recognized in OCI linked with the FX effect from a leasing subsidiary located outside France. 2017 revenue also included a gain on a derivative associated with a receivable on a Global Banking counterparty for EUR 82 million; that hedge enabled HSBC France to recover all of the loss on its receivable, which had been recognised as a credit risk impairment charge in an amount of EUR -82 million. Revenue also includes the change in market value of trading debt in issue due to credit spread (EUR -86 million in 2017 and EUR 16 million in 2016;

Loan impairment charges came to EUR 81 million versus EUR 73 million in 2016. The increase was due to a loss on a receivable from a Global Banking counterparty totalling EUR 82 million, fully covered by exercising the hedging derivative associated with the receivable. Excluding that specific situation, which did not affect HSBC France's P&L, there was a net release of credit risk provisions because of an improvement in all business lines, involving both lower allowances and higher releases. That reflects both the improved financial situation of businesses and HSBC France's rigorous credit risk management.

Adjusted operating expenses were EUR 1,517 million in 2017, from EUR 1,514 million in 2016.

HSBC France's **adjusted profit before tax** was EUR 333 million, lower than the 2016 figure of EUR 663 million. Excluding volatile and non-economic items, the fall in adjusted profit was mainly due to the performance in GB&M and lower credit-risk impairment charges in Commercial Banking being more than offset by weaker profit levels in Retail and Commercial Banking, caused by the low interest-rate environment.

Retail Banking and Wealth Management

HSBC France has 826,000 active[2] Retail Banking and Wealth Management clients, which represents a 1.7 per cent decrease.

Loans outstanding to individuals rose 3 per cent year-on-year to EUR 18.3 billion, in line with market trends, while new mortgage origination was strong at EUR 4.3 billion.

Total client assets amounted to EUR 39.4 billion at the end of 2017, an increase of 3 per cent in a highly competitive operating environment. Retail Banking benefited from an increase in customer deposits, which stood at EUR 15.4 billion at end-2017, including a 9 per cent increase in sight deposits.

In 2017, the life assurance business enjoyed better economic conditions than in 2016. Gross premium income in life assurance was EUR 1.8 billion and net premium income remained positive across the HSBC France network and came to EUR 286 million in 2017. Assets under management by the insurance company increased by 3 per cent and now stand at EUR 19.6 billion. Assets in unit-linked policies grew by 18 per cent, and now represent 20.2 per cent of the total.

HSBC Assurances' expertise and the good fit between its products and the needs of individuals, small businesses and corporate clients in the areas of life insurance, pensions and protection were once again recognised in 2017 through various awards, including Le Revenu magazine's Grand Trophée d'Or life insurance award for HSBC Stratégie Patrimoine (after winning the Trophée d'Or in 2015 and 2016).

Assets under management and distributed through the Asset Management business line for personal, business and institutional clients came to EUR 79.8 billion versus EUR 81.4 at end-2016. The decrease related mainly to short-term and fixed-income products.

The expertise of the Asset Management business resulted in the following awards in 2017:

- 1st place in the Corbeille Long-Terme category for 5-year performance across the range (Mieux Vivre Votre Argent);
- the second Corbeille d'Or award for 1-year performance across the products range (Mieux Vivre Votre Argent);
- the prize for best performance over 15 years and best service to investors from Victoires de la Pierre Papier de Gestion de Fortune for the SCPI Elysées Pierre real estate fund.

Adjusted revenue totalled EUR 761 million versus EUR 824 million in 2016. The decline in revenue came against the background of ongoing low interest rates, which are putting pressure on the interest margins of banks in France. Retail Banking saw lower margins on customer deposits and mortgages, and the pace of mortgage renegotiations and early redemptions was particularly high in the first half of 2017 before slowing in the second. However, pressure on margins increased throughout the year. Commissions on banking services and the distribution of investment products increased, reflecting good commercial impetus and rising stockmarket indices. Asset Management revenue fell and revenue from insurance production rose, driven by positive movements in economic PVIF[3], which was EUR -9 million as opposed to EUR -33 million in 2016.

Loan impairment charges relating to Retail Banking and Wealth Management were reduced by 27 per cent to EUR 11 million, with the standardised cost of risk equal to 0.07 per cent of outstanding loans.

Adjusted operating expenses were stable at EUR 744 million, even though HSBC France maintained expenditure on efforts to combat financial crime.

In 2017, **adjusted profit before tax** in Retail Banking and Wealth Management was EUR 6 million, versus EUR 68 million in 2016. This fall was due primarily the impact of low interest rates on margins and the decline in asset management revenue, which were partly offset by growth in deposits and loans outstanding and in distributed life assurance assets, along with distribution fees on investment products and banking services.

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2 *Count of RBWM customers now includes companies* 'sociétés civiles' *owned by individuals as well as the whole policyholders of the insurance subsidiary.*
3 *Economic PVIF includes accounting PVIF, hedging instruments and technical provisions.*

Commercial Banking

HSBC France is committed to supporting businesses in their development and increased its loan book by 9 per cent to EUR 11.4 billion in 2017. The largest increase was in medium- and long-term loans, which rose 10 per cent, particularly in the medium-sized and large company segment. In a buoyant market, deposits grew 6 per cent to EUR 10.9 billion.

At the same time, Commercial Banking achieved good business levels in engineering and advisory services in the Large Corporates segment in connection with Global Banking and Markets.

Revenue generated by French customers in other international HSBC Group entities now represents over a third of revenues generated by the same companies in France. In 2017, this international revenue rose by 22 per cent. Revenue generated by clients of other international HSBC Group entities in France rose 27 per cent. HSBC remains a key partner for French companies seeking to set up abroad and for foreign companies seeking to expand in France.

Adjusted revenue before loan impairment charges amounted to EUR 518 million versus EUR 549 million in 2016, due to the prolonged impact of historically low interest rates and the decline in fee income, despite volume growth.

Loan impairment charges in Commercial Banking, saw a net release of EUR 7 million, down sharply compared with a EUR 59 million net allowance in 2016 and EUR 93 million in 2015. This historically low level reflects both the improved financial situation of businesses across all sectors of the economy and the rigorous management of credit risk.

Adjusted operating expenses were under control and stable at EUR 345 million in 2017, with higher productivity allowing HSBC France to continue recruiting staff in commercial roles and maintain its expenditure on efforts to combat financial crime.

Commercial Banking's **adjusted profit before tax** rose substantially to EUR 180 million as opposed to EUR 146 million in 2016.

Global Banking and Markets

In 2017, HSBC strengthened its position as the leading international bank in the French bond issuance market[4] and the leader among European public-sector issuers[5]. In that segment, HSBC stood out by leading Greece's return to the markets and the country's largest debt swap transaction. HSBC assisted its clients in all major segments of the international markets – hybrid high-yield debt, multi-tranche/multi-currency issues, private placements including Schuldscheindarlehen – and provided services to the widest variety of issuers in terms of profile and credit quality. HSBC strengthened its position in green and social responsibility bond issues, with record transaction amounts in that category.

Adjusted revenue fell slightly to EUR 657 million versus EUR 667 million in 2016. Global Markets revenue includes the change in market value of trading debt in issue due to credit spread (EUR -86 million in 2017 and EUR 16 million in 2016; Excluding this element, Global Markets revenue rose after a good first half, and a disappointing fourth quarter caused by difficult market conditions. Global Banking revenues were driven by good performance in aircraft asset finance, offsetting weaker performance in M&A advisory compared with 2016. Business levels were also supported by higher Private Equity revenues. There was also a gain on a derivative associated with a receivable on a Global Banking counterparty for EUR 82 million; that hedge enabled HSBC France to recover all of the loss on its receivable, which had been recognised as a credit risk impairment charge in an amount of EUR -82 million. In 2016, there had been a positive impact relating to the revaluation reserve of a leasing subsidiary (EUR 58 million).

Revenue generated by French clients in international markets rose by 7 per cent relative to 2016 at constant exchange rates, and continued to account for the majority of revenue generated by French clients within the HSBC Group. Revenue generated in France by clients of other HSBC Group entities increased by 10 per cent.

Loan impairment charges came to EUR 76 million versus a release of EUR 2 million in 2016. The increase was due to a loss on a receivable from a Global Banking counterparty totalling EUR -82 million, fully hedged by the gain recognised on an associated hedging derivative. Excluding that specific situation, which did not result in any loss for HSBC France, there was a net release of credit risk provisions.

Adjusted expenses amounted to EUR 364 million, down 3 per cent, due to efforts to control direct costs, combined with the benefits of initiatives to transform support services and the reduction in HSBC France's contribution to the European Single Resolution Fund.

Adjusted profit before tax in Global Banking and Markets was EUR 217 million, as opposed to EUR 295 million in 2016.

Private Banking

The private banking profession as a whole is continuing to change against a demanding regulatory background. HSBC imposes high standards regarding know-your-customer requirements and the transactions it performs.

At EUR 8.0 billion, assets under management rose by 12 per cent compared to end-2016, when they stood at EUR 7.2 billion, driven by net new money mainly from resident clients, and strong commercial impetus supported by referrals from other business lines.

Adjusted revenue rose 9 per cent to EUR 49 million, buoyed by firm lending activity, an improvement in the product mix and rising stockmarket indices, which offset the fall in deposit margins caused by lower interest rates.

Loan impairment charges were stable at EUR 1 million.

Adjusted operating expenses rose substantially compared with 2016 because of expenditure on efforts to combat financial crime and the implementation of MIFID II.

Private Banking's **adjusted profit before tax** was EUR 5 million.

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4 *ranking #5 in bond issues in France in 2017 – source: Dealogic.*
5 *ranking #2 in sovereign and quasi-sovereign debt (euro SSA) in 2017 – source: Dealogic.*

Corporate Centre

The Corporate Centre comprises balance sheet management and treasury activities along with operating income and expense items that are not allocated to the global businesses.

In 2017, balance sheet management made a slight loss as opposed to a significant profit in 2016, when it benefited from gain related to the discontinuation of macro hedging relationships (EUR 122 million); maintaining the hedging policy would have led to spread this revenue over the next three years.

The main unallocated items are:

- at the revenue level, the change in fair-valued own debt due not related to the credit spread, and recognition of the ineffective portion of hedging transactions under IAS 39, and
- at the expense level, restructuring costs and the cost of IT projects relating to strategic initiatives in the areas of digital banking and the modernisation of systems, which affected the 2015, 2016 and 2017 financial years.

Summary consolidated balance sheet

	At	
	31 Dec 2017	31 Dec 2016
	€m	€m
Total assets	**167,544**	169,423
– cash and balances at central banks	**14,630**	4,714
– trading assets	**22,401**	23,589
– financial assets designated at fair value	**8,605**	7,305
– derivative assets	**34,407**	47,367
– loans and advances to banks	**4,843**	3,379
– loans and advances to customers	**44,856**	41,327
– reverse repurchase agreements – non-trading	**13,781**	11,862
– financial investments	**20,548**	26,504
– other	**3,473**	3,376
Total liabilities	**161,838**	163,550
– deposits by banks	**13,297**	12,061
– customer accounts	**38,277**	34,220
– repurchase agreements – non-trading	**6,586**	7,592
– trading liabilities	**32,436**	26,468
– financial liabilities designated at fair value	**7,565**	8,464
– derivative liabilities	**33,229**	44,013
– debt securities in issue	**5,159**	6,616
– liabilities under insurance contracts issued	**21,853**	21,302
– other	**3,436**	2,814
Total equity	**5,706**	5,873
– total shareholders' equity	**5,676**	5,842
– non-controlling interests	**30**	31

The consolidated balance sheet of HSBC France showed total assets of EUR 168 billion at 31 December 2017, stable on the figure of EUR 169 billion at 31 December 2016.

Assets

HSBC France's deposits with the central bank rose EUR 9.9 billion to EUR 14.6 billion in 2017, and available-for-sale financial investments fell EUR 6 billion to EUR 20.5 billion in connection with the bank's treasury and liquidity management operations. The trading portfolio was reduced by EUR 1.2 billion to EUR 22.4 billion and securities held under repurchase agreements rose from EUR 11.9 billion to EUR 13.8 billion. Derivative instruments were EUR 13 billion lower. The client loan book continued to grow, by EUR 3.5 billion, due to further strong loan origination.

Liabilities

Deposits by banking counterparties increased to EUR 13.3 billion, including HSBC France's involvement in the Targeted Long Term Refinancing Operation ('TLTRO'). Customer deposits rose from EUR 34.2 billion to EUR 38.3 billion, mainly due to transactions with Global Banking clients. The trading portfolio grew by EUR 6 billion and repo securities fell by EUR 1 billion, whilst derivatives decreased by EUR 11 billion. The value of insurance policies taken out by clients rose slightly.

Equity

Shareholders' equity fell slightly to EUR 5.7 billion. In the first half of 2017, HSBC France reviewed the structure of its capital and carried out several transactions described in the 'Capital management' chapter on page 121.

The phased-in total capital ratio was 14.1 per cent at 31 December 2017 versus 13.2 per cent at 31 December 2016. At 31 December 2017, the phased-in CET1 ratio was 13.1 per cent and the phased-in leverage ratio was 3.7 per cent.

Liquidity and financing

Outstanding medium- and long-term financing and the bank's main financing transactions in 2017 are presented in the liquidity and financing management section on pages 88 to 91.

The short-term ratio (liquidity coverage ratio or LCR), calculated according to the EU's delegated act, was 149 per cent as opposed to the regulatory minimum figure of 80 per cent, and the long-term ratio (net stable funding ratio or NSFR), calculated according to the text of BCBS 295, was 116 per cent.

Balance Sheet Information

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
At 31 December 2017	**47,052**	**10,710**	**105,240**	**887**	**3,655**	**167,544**
– *of which: Loans and advances to customers*	***18,329***	***11,355***	***13,245***	***1,913***	***14***	***44,856***
– *of which: Customers accounts*	***15,396***	***10,862***	***11,250***	***727***	***42***	***38,277***
At 31 December 2016[1]	43,167	10,626	106,350	820	8,460	169,423
– *of which: Loans and advances to customers*	*17,756*	*10,398*	*11,785*	*1,374*	*14*	*41,327*
– *of which: Customers accounts*	*14,593*	*10,248*	*7,138*	*779*	*1,462*	*34,220*

1 *The comparative numbers are presented after the restatement explained in note 1.3 'Significant events during the year', in the section 'Changes in Business lines segmentation'.*

Results of the France geographical segment as used by HSBC Holdings plc in its analysis of geographical contributions to the HSBC Group's results

In 2017, France as viewed by the HSBC Group contributed USD 268 million (EUR 246 million) to the Group's profit before tax, as opposed to USD 590 million (EUR 538 million) in 2016.

The difference between these figures and those presented in the comments on the legal perimeter above mainly arises because these figures include the Paris branch of HSBC Bank plc, which is engaged in cash equity and structured equity derivative activities.

Post-balance sheet events

There has been no significant change since the date of the last published financial statements.

Outlook

2018 should not mark a major change from the trend outlined at the end of 2017. Emerging Asia, China and India mainly, will continue sustaining global growth, which could furthermore still slightly accelerate in the US, while the Eurozone should decelerate, France being stable. The orientation of monetary policies, with a new presidency at the US Federal reserve and a possible end to the Eurozone Quantitative Easing, will be crucial, as well as other risks weighing on the macroeconomic scenario are far from negligible: increase in public and private debt, high level of stock markets indices, geostrategic and political risks in particular.

Economic growth in France and the Eurozone was better than expected in 2017 and the economic outlook is encouraging. The quantitative easing policies have contributed to interest rates remaining historically low. This context of decline in returns in a low growth context burdens the bank's interest margin and increases the challenges on the banking model for the French banking sector. HSBC France's results could be impacted by a prolonged period of low or negative interest rates with a low inflation environment.

HSBC France has a clear and focused strategy that is consistent with the HSBC Group's strategy and adapted to France, a priority market. It focuses on three main orientations:

- driving up business by continuing to develop its wealth management business and investing in digital capabilities in Retail and Commercial banking, leveraging strengths of the Group, notably its international footprint to reinforce its positioning in Commercial banking and Global Banking and Markets;
- simplifying processes and procedures to gain efficiency with improvements in the customer experience. HSBC France launched in 2017 a three-year IT infrastructure modernisation programme and also has an ambitious to progressively 'digitalise' its products.

HSBC France's growth model aims to develop connectivity among the HSBC Group's entities and to preserve the strength of its balance sheet.

From 1 January 2018, HSBC France has included within its perimeter the activities of HSBC Bank plc's Greek branch. That branch, which is of limited significance by comparison with HSBC France's balance sheet, includes Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets activities.

Historical data (unaudited)

	2017	2016	2015	2014	2013
	€m	€m	€m	€m	€m
HSBC France Group					
Profit before tax	**219**	432	618	232	546
Profit attributable to shareholders	**177**	310	445	198	383
At 31 December					
Shareholders' equity	**5,676**	5,842	5,838	5,733	5,391
Loans and advances to customers and banks	**49,699**	44,706	43,184	42,262	40,235
Customer accounts and deposits by banks	**51,574**	46,281	39,897	40,656	36,974
Total Balance Sheet	**167,544**	169,423	168,458	201,018	208,893
Number of employees (full-time equivalents)	**8,337**	8,647	9,217	9,402	9,533
Ratios					
– total capital ratio[1]	**14.1%**	13.2%	14.9%	14.1%	13.7%
– Common Equity Tier One Ratio[1]	**13.1%**	13.2%	14.9%	14.1%	13.7%
– Cost efficiency ratio[2]	**78.6%**	72.7%	68.8%	82.2%	70.9%

1 *Capital ratios under Basel 2.5 in 2013 and under Basel III 'transitional' as of 2014.*
2 *The cost efficiency ratio in 2016 does not include the depreciation of goodwill.*

Credit ratings

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

	Standard & Poor's	Moody's	FitchRatings
Long term Unsecured Debt	AA -	Aa3	AA -
Outlook	Stable	Stable	Stable
Short term Rating	A-1+	P-1	F1+
Last update	15 Nov 2017	27 Sep 2017	11 Oct 2017

For FitchRatings and Standard and Poor's, HSBC France's ratings are aligned with those of HSBC Bank plc (Standard and Poor's) and HSBC Holdings plc (FitchRatings), given HSBC France's strategic importance for the HSBC Group.

HSBC France's ratings have been reviewed during the year by FitchRatings and Moody's, S&P reviewed HSBC France within the HSBC Holdings plc's framework and the outlook has been revised to stable. There is no remaining issue or open discussion point.

In September 2017, Moody's upgraded HSBC France's long-term ratings from A1 (LT deposits) and A2 (senior unsecured debt) to Aa3. HSBC France having increased the MREL/TLAC resources downstream from HSBC Holdings while the agency updated its methodology resulting in an assessment of a better protection of senior creditors.

Other information on HSBC France

Information on inactive banking accounts

At 31 Dec 2017

(Articles L. 312-19 and R. 312-21 of the French monetary and commercial code)

	Number of accounts (units)	Outstanding amounts (thousand of euros)
Inactive accounts open in our books	**47,205**	**73,759**
Accounts transferred to CDC during the year	**2,338**	**9,113**
Accounts transferred to French domaines during the year	**110**	**1,031**

Information on supplier payable amounts schedule

(Articles L. 441-6-1 and D. 441-4 of the French Commercial code)

Article D.441 - II : Received invoices 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 90 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	34,950					11,638
Amount of invoices including VAT (in k€)	428,590	122,214	23,601	12,581	36,340	194,734
Percentage of total purchasing in the year	69%	20%	4%	2%	6%	31%
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	1,228					
Amount of excluded invoices including VAT (in k€)	13,544					
(C) Suppliers' payment terms (contractual or legal terms – article L.441-6 or article L.443-1 of the Commercial code)						
Payment terms used to assess the late payments	Contractual terms: 45 days					

Information on client receivable amounts schedule

(Articles L. 441-6-1 and D. 441-4 of the French Commercial code)

Article D.441 - I : Issued invoices by HSBC France S.A. subject to late payment delays at year-end

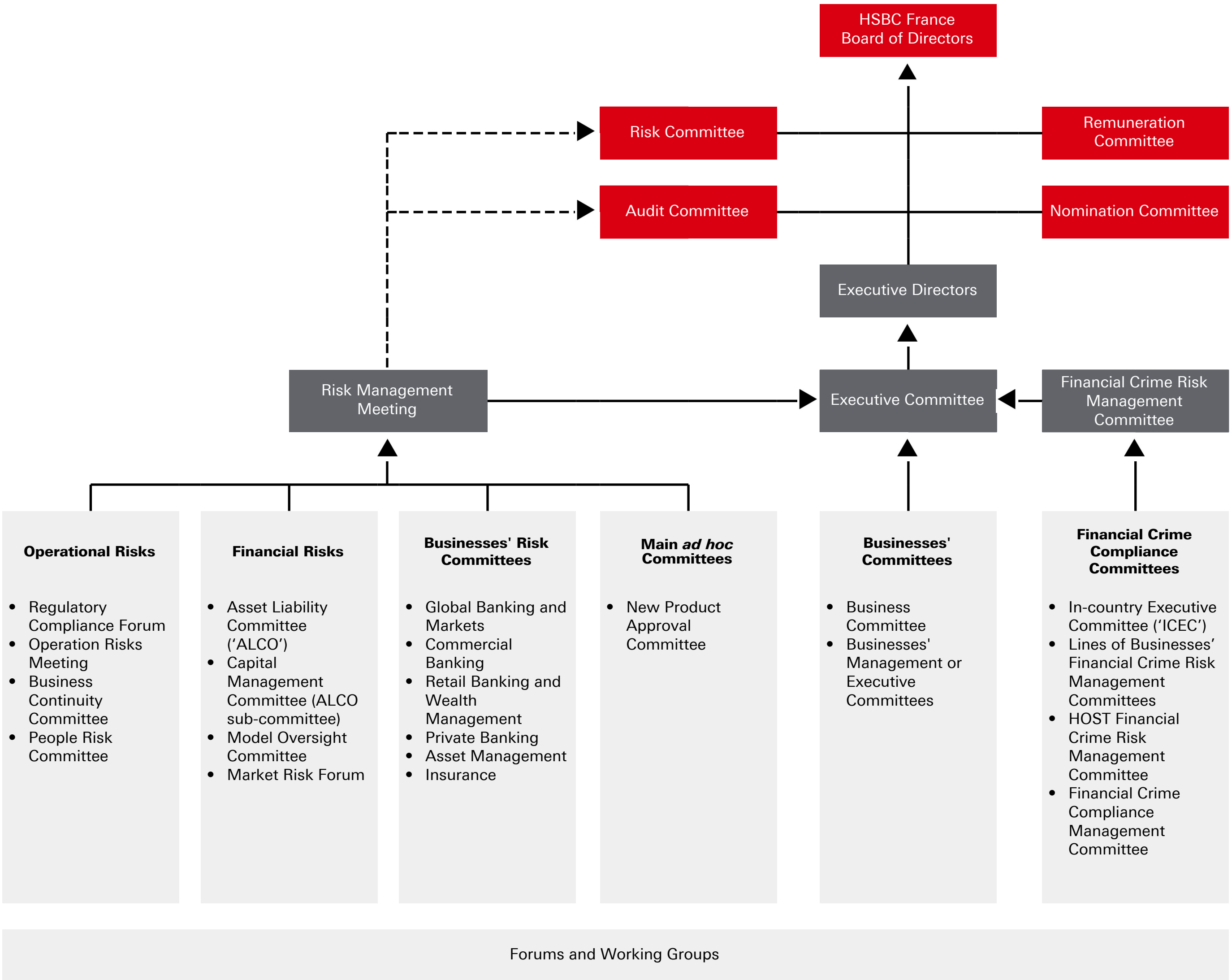
	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 90 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	91					937
Amount of invoices excluding VAT (in k€)	9,621	2,129	3,711	2,164	8,719	16,722
Percentage of total revenue of the year	0.33%	0,07%	0.13%	0.07%	0.30%	0.57%
(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 – article L.441-6 or article L.443-1 of the Commercial code)						
Payment terms used to assess the late payments	Contractual terms: 30 to 45 days					

Corporate governance report

Under article L. 225-37 of the French Commercial Code, amended by the Article 1 of the 2017-1162 Order of 12 July 2017 introducing various measures to simplify and clarify companies' obligations to provide information, 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 5 and 6 February 2018.

Corporate governance structure and bodies

Committees' governance and structure



Board composition is detailed and commented on pages 17 et seq of this Corporate Governance report.

Membership, missions and work of the Board Committees are presented in relevant sections of this Corporate Governance report (see pages 29 to 33).

Executive Committee membership is detailed on page 23 of this Corporate Governance report.

Composition of the Board of Directors of HSBC France at 31 December 2017[6]

Chair of the Board

Samir Assaf
Chairman of the Board of Directors

Member of the Nomination Committee and of the Remuneration Committee

First elected: 2012. Last re-elected: 2016. Term ends: 2019

Principal position: Member of the HSBC Group Management Board. Chief Executive Officer Global Banking and Markets, HSBC Group[7]. Head of the Middle East, North Africa and Turkey region for the HSBC Group.

Other directorships in the HSBC Group: Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG[7]. Director, The Saudi British Bank[7].

Résumé: Born in 1960. 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. Started at HSBC as Head of Global Markets at HSBC France and Head of Fixed Income Trading, Europe. In 2006, promoted to Head of Global Markets, Europe and Middle-East and in 2007 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. In 2011, he was appointed Group Managing Director and a member of the Group Management Board. Since November 2012, he has been the Chairman of the Board of Directors of HSBC France. He is 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.

2016	**Directorships in the HSBC Group:** Chairman of the Board of Directors, HSBC France. Director: The Saudi British Bank. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.
2015	**Directorships in the HSBC Group:** Chairman of the Board of Directors, HSBC France. Director: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. **Directorship outside of the HSBC Group:** Chairman of the Board of Directors: Global Financial Markets Association.
2014	**Directorships in the HSBC Group:** Chairman of the Board of Directors, HSBC France. Director: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. **Directorship outside of the HSBC Group:** Chairman of the Board of Directors: Global Financial Markets Association.
2013	**Directorships in the HSBC Group:** Chairman of the Board of Directors: HSBC France. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.

Executive Directors

Jean Beunardeau
Director and Chief Executive Officer

First elected: 2008. Last re-elected: 2017. Term ends: 2020

Principal position: Chief Executive Officer, HSBC France. Head of Global Banking and Markets, France. Group General Manager, HSBC Group.

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

Other directorships outside of the HSBC Group: Director, Institut de la Gestion Déléguée. Member of the Supervisory Board, Société Anonyme des Galeries Lafayette. Member of the Supervisory Board, Fonds de garantie des dépôts et de résolution (permanent representative of HSBC France). Chairman, Académie France-Chine. Director, Fondation de France (permanent representative of HSBC France) (since March 2017).

Résumé: 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 France 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 France. 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. Since January 2012, he has been CEO of HSBC France and Head of Global Banking and Markets, France.

2016	**Directorships in the HSBC Group:** Director and CEO: HSBC France. 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. Member of the Supervisory Board: Fonds de garantie des dépôts et de résolution (permanent representative of HSBC France). Chairman: Académie France-Chine.
2015	**Directorships in the HSBC Group:** Director and CEO: HSBC France. 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.

6 *As far as their directorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.*
7 *Listed company.*

2014	**Directorships in the HSBC Group:** Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Chairman: Fondation HSBC pour l'Education. **Directorships outside of the HSBC Group:** Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.
2013	**Directorships in the HSBC Group:** Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Chairman: Fondation HSBC pour l'Education. **Directorships outside of the HSBC Group:** Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.

Andrew Wild

Director and Deputy Chief Executive Officer

First elected: 2015. Last re-elected: 2016. Term ends: 2019

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

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

Résumé: 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 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. Since February 2015, he has been Head of Commercial Banking in France and Deputy Chief Executive Officer, Deputy to the CEO of HSBC France since March 2015. In 2017, he was appointed Head of Commercial Banking, Continental Europe.

2016	**Directorships in the HSBC Group:** Director and Deputy CEO: HSBC France. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2015	**Directorships in the HSBC Group:** Director and Deputy CEO:HSBC France.
2014	–
2013	–

Non executive Directors

Ibtissam Bara

Director elected by employees

First elected: 2016. Term ends: 2019

Principal position: Project Officer, Pro Clients Proposition Department, Retail Banking and Wealth Management, HSBC France.

Résumé: Born in 1982. Joined HSBC France in 2007.

2016	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2015	–
2014	–
2013	–

Ludovic Bénard

Director elected by employees

Member of the Remuneration Committee

First elected: 2016. Term ends: 2019

Principal position: Wealth Management Advisor, Opéra Patrimonial Center, Retail Banking and Wealth Management, HSBC France.

Other directorships in the HSBC Group: Member of the Supervisory Board, HSBC France Actionnariat. Member of the Supervisory Board, Fonds MOEA (since November 2017).

Résumé: Born in 1978. Joined HSBC France in 2009.

2016	**Directorships in the HSBC Group:** Director elected by employees: HSBC France. Member of the Supervisory Board: HSBC France Actionnariat.
2015	–
2014	–
2013	–

Xavier Bertrand

Director elected by employees

First elected: 2016. Term ends: 2019

Principal position: Project Officer, Pro Clients Proposition Department, Retail Banking and Wealth Management, HSBC France.

Résumé: Born in 1960. Joined HSBC France in 1999.

2016	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2015	–
2014	–
2013	–

Paule Cellard
Independent Director

Member of the Audit Committee and of the Risk Committee

First elected: 2017. Term ends: 2019

Other directorships: Director, CA Indosuez Wealth Management (Europe). Member of the Supervisory Board, Damartex[8]. Member of the Supervisory Board; Somfy[8]. Directorship expired in 2017: Chairman, Klefi Conseil.

Résumé: Born in 1955. 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, CEO 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.

2016	–
2015	–
2014	–
2013	–

Lindsay Gordon
Independent Director

Chairman of the Risk Committee and Member of the Audit Committee

First elected: 2013. Last re-elected: 2016. Term ends: 2019

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

Other 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.Director, Export Development Canada.Director, Canadian Institute for Advanced Research.

Résumé: Born in 1952. British and Canadian nationality. 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.

2016	**Directorships in the HSBC Group:** Independent Director: HSBC France. 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.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Co-Chair: University of British Columbia Capital Campaign. 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.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chancellor: University of British Columbia. Co-Chair: University of British Columbia Capital Campaign. 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.
2013	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Centre of Excellence for Marine Transportation.

Philippe Houzé
Independent Director

Chairman of the Nomination Committee and of the Remuneration Committee

First elected: 1999. Last re-elected: 2016. Term ends: 2019

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

Other directorships: Deputy Chairman and Chief Executive Officer, Motier. Chairman, Motier Domaines. Chairman, Guérin Joaillerie. Director, Carrefour[8]. Director, Lafayette Anticipation - Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Supervisory Committee, BHV Exploitation. 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 . Chairman of the France Council, INSEAD. Member of the Board, INSEAD. Deputy Chairman, Association Alliance 46.2 Entreprendre en France pour le Tourisme. Director, Expofrance 2025. Director, Institut Français de la Mode (since November 2017). Chairman of the France Board of Governors, ESCP Europe (since 2017). Directorships expired in 2017: Chairman of the Governing Board, Novancia Business School. Director, EESC ESCP.

Résumé: Born in 1947. Director of Galeries Lafayette since 1974. Chairman of Monoprix from 1994 to 2013.

8 *Listed company.*

2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **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. Director: Carrefour, 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.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines, Didier Guérin. Director: Carrefour. Director: Lafayette Anticipation-Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville ('UCV'). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: BHV Exploitation. President of the Council: France INSEAD. Director: INSEAD, Expofrance 2025. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Galeries Lafayette Group. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines. Director: iDbyMe, Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville ('UCV'). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: Bazar de l'Hôtel de Ville-B.H.V. Censor: Groupe Carrefour. 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.
2013	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman of the Management Board: Galeries Lafayette Group. Chairman: Union du Grand Commerce de Centre-Ville ('UCV'). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected Member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: Bazar de l'Hôtel de Ville-B.H.V. President of the Council: Insead France. Chairman of the Governing Board: Novancia Business School.

Anne Méaux

Independent Director

First elected: 2011. Last re-elected: 2015. Term ends: 2018[9]

Principal position: Chairman, Anne Méaux Conseil.

Other directorships: Deputy Chairman, Association Force Femmes. Chairman of the Board of the Founders, Les Napoléons.

Résumé: Born in 1954. Attached to the press relations department of the Elysée palace from 1976 to 1981 then Communication Officer for Valéry Giscard d'Estaing, former President of the French Republic and for the UDF parliamentary group in the French National Assembly from 1981 to 1986. From 1986 to 1988, Communication Officer to the cabinet of Alain Madelin (French Ministry of Industry). Until 2015, Chairman of Image 7 which she founded in 1988.

2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Anne Méaux Conseil. Deputy Chairman: Association Force Femmes. Chairman of the Board of the Founders: Les Napoléons.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Anne Méaux Conseil. Deputy Chairman: Association Force Femmes. Chairman of the Board of the Founders: Les Napoléons.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Image 7, Com Sept Finance, Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.
2013	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Image 7, Image 8, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.

Thierry Moulonguet

Independent Director

Chairman of the Audit Committee and member of the Risk Committee

First elected: 2009. Last re-elected: 2016. Term ends: 2019

Other directorships in the HSBC Group: Independent Director, Chairman of the Audit Committee and Member of the Risk Committee, HSBC Bank plc.

Other directorships outside of the HSBC Group: Chairman and Chief Executive Officer, Revue Des Deux Mondes[10]. Chairman of the Supervisory Board, Webedia[10] (since November 2017). Director, Fimalac[10,11]. Director, Groupe Lucien Barrière[10]. Director, Valeo[11]. Director, Prodways Group[10]. Director, Trois-S Entertainment[10]. Directorship expired in 2017: Vice-Chairman of the Supervisory Board, Webedia.

9 *Director standing for re-election at the Annual General Meeting to be held on 13 March 2018.*
10 *Company owned by the Fimalac group.*
11 *Listed company.*

Résumé: Born in 1951. 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.

2016	**Directorships in the HSBC Group:** Independent Director: HSBC France, 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.
2015	**Directorships in the HSBC Group:** Independent Director: HSBC France, 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.
2014	**Directorships in the HSBC Group:** Independent Director: HSBC France, 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, Fitch Rating Group Inc, Groupe Lucien Barrière, Valeo.
2013	**Directorships in the HSBC Group:** Independent Director: HSBC France, 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, Fitch Rating Group Inc, Groupe Lucien Barrière, Valeo.

Arnaud Poupart-Lafarge
Independent Director

First elected: 2016. Term ends: 2019

Principal position: Chief Executive Officer, Nexans.

Résumé: Born in 1965. 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 since 2014, after joining the company in 2013 as Chief Operating Officer.

2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorship outside of the HSBC Group:** Chief Executive Officer: Nexans.
2015	–
2014	–
2013	–

Philippe Purdy
Director elected by employees

First elected: 2004. Last re-elected: 2016. Term ends: 2019

Principal position: Sales representative, Mandelieu branch, Retail Banking and Wealth Management, HSBC France.

Résumé: Born in 1958. Joined HSBC France in 1982.

2016	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2015	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2014	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.
2013	**Directorship in the HSBC Group:** Director elected by employees: HSBC France.

Lucile Ribot
Independent Director

Member of the Audit Committee and of the Risk Committee

First elected: 2016. Last re-elected: 2017. Term ends: 2020

Other directorships: Directorships expired in 2017: 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.

Résumé: Born in 1966. 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.

2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **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.
2015	–
2014	–
2013	–

Carola von Schmettow
Director

First elected: 2015. Term ends: 2018[12]

Principal position: Chairman of the Management Board, HSBC Trinkaus & Burkhardt AG[13].

Other 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[13]. Member of the Supervisory Board, BVV.

12 *Director standing for re-election at the Annual general Meeting to be held on 13 March 2018.*
13 *Listed company.*

Résumé: Born in 1964. German nationality. 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.

2016	**Directorships in the HSBC Group:** Director: HSBC France. 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, BVV.
2015	**Directorships in the HSBC Group:** Director: HSBC France. 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, BVV.
2014	–
2013	–

Antonio Simoes
Director

First elected: 2012. Last re-elected: 2016. Term ends: 2019

Principal position: Member of the Group Management Board, HSBC Group[14]. Chief Executive Officer, HSBC Bank plc. Chief Executive Officer of Europe.

Other directorship in the HSBC Group: Director, HSBC Bank plc.

Other directorships outside of the HSBC Group: Directorships expired in 2017: Chairman, Financial Conduct Authority Practitioner Panel. Member, Banking Standards Board.

Résumé: Born in 1975. Portuguese nationality. Joined HSBC in 2007 from McKinsey & Co, where he was a Partner in the London office. From 2007 to 2009, Group Head of Strategy, HSBC Holdings plc. From 2009 to 2011, Group Head of Strategy and Planning and Chief of Staff to the Group CEO, HSBC Holdings plc. He was appointed Group General Manager in 2011. From 2011 to 2014, Head of United Kingdom and of Retail Banking and Wealth Management Europe. From 2014 to 2015, Deputy Chief Executive, HSBC Bank plc and Chief Executive Officer of United Kingdom. Since 2015, Chief Executive Officer, HSBC Bank plc and Chief Executive of Europe.

2016	**Directorships in the HSBC Group:** Chief Executive Officer and Director: HSBC Bank plc. Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Financial Conduct Authority Practitioner Panel. Member: Banking Standards Board.
2015	**Directorships in the HSBC Group:** Chief Executive Officer and Director: HSBC Bank plc. Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Financial Conduct Authority Practitioner Panel. Member: Banking Standards Board.
2014	**Directorships in the HSBC Group:** Director: HSBC France, HSBC Bank plc.
2013	**Directorships in the HSBC Group:** Director: HSBC France, HSBC Bank plc, HSBC Bank A.S.

Brigitte Taittinger
Independent Director

First elected: 2008. Last re-elected: 2016. Term ends: 2019

Other directorships: Member of the Board of Directors, Centre Georges Pompidou. Director, Fnac Darty[14].

Résumé: Born in 1959. 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.

2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Vice-President of the Board of Directors: Festival d'Aix-en-Provence. Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Vice-President of the Board of Directors: Festival d'Aix-en-Provence. Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.
2013	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Director: Ensemble Orchestral de Paris, Opéra Comique, Groupe Fnac.

14 *Listed company.*

Jacques Veyrat

Independent Director

Member of the Nomination Committee and of the Remuneration Committee

First elected: 2009. Last re-elected: 2016. Term ends: 2019

Principal position: Chairman, Impala SAS.

Other directorships and functions: Chairman, Impala Holding. Chairman of the Board of Directors, Fnac Darty[15] (since July 2017). Director, Nexity[15]. Member of the Supervisory Board, Neoen. Member of the Supervisory Board, Pacemar. Member of the Board of Directors, Cameron France Holding SAS. Censor, Direct Energie. Censor, ID Logistics. Censor, Sucres et Denrées. Senior Advisor for investments in France, KKR (since January 2018). Directorships expired in 2017: Member of the Supervisory Board, Eurazeo[15]. Director, Groupe Fnac.

Résumé: Born in 1962. After having held various positions of responsibility in several French ministries, he joined the Louis Dreyfus Group in 1995. In 1998, he set up LDCom, renamed Neuf Telecom in 2004 and Neuf Cegetel in 2005. In 2008, he left Neuf Cegetel when it was sold to SFR. In 2008, he was appointed Chairman of the Louis Dreyfus Group. In 2011, he left the Louis Dreyfus Group and created the Impala Group.

2016	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen, Pacemar. Censor: Direct Energie, ID Logistics, Sucres et Denrées.
2015	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen, Pacemar. Censor: Direct Energie, ID Logistics, Sucres et Denrées.
2014	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Impala SAS, Impala Holding. Chairman of the Board of Director: Maison Lejaby SA. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen. Censor: Direct Energie, ID Logistics, Sucres et Denrées.
2013	**Directorship in the HSBC Group:** Independent Director: HSBC France. **Directorships outside of the HSBC Group:** Chairman: Impala SAS, Impala Holding. Director: Imerys, Groupe Fnac, Nexity. Member of the Supervisory Board: Eurazeo, Neoen, Sucres et Denrées.Censor: Direct Energie, ID Logistics.

Executive Committee membership

Jean Beunardeau	Chief Executive Officer, Head of Global Banking and Markets
Andrew Wild	Deputy Chief Executive Officer, Head of Commercial Banking
Anne-Lise Bapst	Head of Communication
Marine de Bazelaire	Head of Corporate Sustainability
Xavier Boisseau	Deputy Head of Global Banking and Markets
Hubert Bouxin	Co-Head of Banking
Myriam Couillaud	Head of Human Resources
Eric Emoré	Head of Insurance
François Essertel	Head of Private Banking
Emma Evans	Head of Financial Crime Compliance
Laurent Facque	Head of Regulatory Compliance
Sébastien Guillo	Head of Strategy and Organisation
Marc de Lapérouse	Head of Legal
Nathalie Léonard	Head of Tax
Philippe Moiroud	Chief Operating Officer
François Mongin	Head of Internal Audit
Matteo Pardi	Head of Asset Management
Emmanuel Rémy	Chief Risk Officer
Laurence Rogier	Chief Financial Officer
Thomas Vandeville	Head of Retail Banking and Wealth Management
Simon Vaughan Johnson	Head of Remediation Management Office

Corporate governance regime

Corporate governance code

In accordance with the requirements under article L. 225-37-4 of the French Commercial Code, it is stated that the Corporate governance code to which HSBC France refers, as a priority, is the Corporate Governance Code for HSBC Group companies (the 'Code'), adopted by HSBC France 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 and is consistent with HSBC France'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.

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' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation. In 2017, the Board reviewed and updated these internal rules at its meeting held on 8 February in order to take into account the review, by the HSBC Group, of the core terms of reference for the Remuneration Committees of its subsidiaries.

The Board's internal rules define 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. 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 France, setting out their rights and duties.

[15] *Listed company.*

Board Chairmanship and Executive Management

Since 2007, HSBC France'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 since 2015.

Missions of the Chairman of the Board

The Chairman of the Board has a duty to ensure the proper functioning of HSBC France'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 mission, and in particular ensures that they are in possession of all of the information they require for the discharge of their duties.

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, but in practice, decisions involving the orientation of company activities are submitted to the Board of Directors for approval.

Furthermore, the Board of Directors has delegated powers to issue bonds to Jean Beunardeau (Chief Executive Officer), Andrew Wild (Deputy Chief Executive Officer) 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 France to sums above EUR 1,500,000.

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

Board of Directors

Composition of the Board

At 31 December 2017, the Board of Directors comprised 18 Directors, of which 14 appointed by the Shareholders' General Meeting and four elected by employees. A representative of the Central Works Council attends Board meetings, without voting rights.

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

Changes occurred during 2017

The Nomination Committee reviewed the position of the Directors whose term of office expired at the AGM on 26 April 2017: Jean Beunardeau and Lucile Ribot, and proposed that the Board vote to reappoint them, taking into account their performance, skills and active contribution to the work done by the Board. At the AGM held on 26 April 2017, shareholders re-elected those Directors.

On the Nomination Committee's proposal, the Board of Directors, at its meeting on 8 February 2017, co-opted Paule Cellard as a Director, to replace Alan Keir who had resigned. The Shareholders' general meeting on 26 April 2017 ratified this co-optation.

The Board of Directors noted the resignation of Philippe Pontet from his term as Director on 24 February 2017 and of Martine Gerow from her term as Director on 21 June 2017 at its meetings held on 26 April 2017 and 21 July 2017 respectively.

Board diversity

Board membership aims to include a balance and a complementarity of experience, skills, knowledge, independence and diversity. Global Board membership has thus to reflect a sufficiently broad range of experience and profiles. Knowledge and experience of the financial industry, business management and international dimension are basic criteria to select candidates.

The Board includes five different nationalities. The average age of the Directors in office is 55 at 31 December 2017.

Further to Martine Gerow's resignation and other than the Directors elected by employees, the Board comprises five women and nine men. The Nomination Committee will propose to the Board to appoint a woman Director before the Annual General Meeting to be called to approve the 2017 accounts.

Independent Directors

In accordance with the Corporate Governance Code for HSBC Group companies, the Board of Directors determines, on appointment and annually thereafter, whether each non-executive Director is independent in character and judgement. 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, including if the director:

- is a former employee of the company or of the Group, until five years after employment, or any other material connection, has ended during this period;
- has, or has had within the last three years, a material business relationship with a company in the HSBC Group either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with that company (including if the director has been a director, partner or principal of a professional adviser which currently provides services or provided services within one year of the date of appointment of the director or is an employee of such professional adviser who is or has been involved in providing such services to that company);
- has received or receives additional remuneration from the company, apart from a director's fee, or additional remuneration from any other company in the HSBC Group, participates in a company or HSBC Group share option or a performance-related pay scheme, is a member of an HSBC Group pension scheme or is financially dependent on any company in the HSBC Group;
- has close family ties with any advisers, directors or senior employees of any company in the HSBC Group;
- holds cross-directorships or has significant links with other directors of the company through involvement in other companies or bodies; or
- represents a significant external shareholder.

Furthermore, the Board rigorously reviews all relevant circumstances before determining that a non-executive Director who has served on the Board for more than nine years remains independent.

Based on the Nomination Committee's report, the Board of Directors reviewed the situation of each of its members as at 31 December 2017 in the light of the criteria detailed above. It considered that nine Directors can be deemed independent. Nonetheless, two of them have served on the Board for more than nine years. Nevertheless, the Board of Directors found that this criterion alone did not call into question their independence vis-à-vis the company.

This proportion of independent Directors is higher than a third (excluding the Chairman of the Board), as recommended by the Code.

Conflicts of interest and ethical rules

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

For information, it has to be noted that Samir Assaf is Chairman of the Board of HSBC France and Chief Executive of Global Banking and Markets for the HSBC Group and a member of the HSBC Holdings plc Group Management Board.

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.

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 27 October 2017 the Board conducted its annual review of agreements already entered into it had authorised previously and still in force.

Agreements authorised in 2017

A new agreement subject to the provisions of article L. 225-38 of the French Commercial Code was approved by the HSBC France's Board of Directors during its meeting on 21 July 2017 and signed on 31 August 2017.

This agreement between HSBC France and HSBC Bank plc concerns the acquisition of HSBC Bank plc operations in Greece by HSBC France.

Agreement previously authorised and ended in 2017

At its meeting on 22 July 2016, the Board of Directors had authorised an agreement between HSBC France, HSBC Holdings plc and HSBC Bank plc, setting out the allocation between the three companies of the settlement of the Class Action on Euribor initiated in the United States of America. This agreement ended in February 2017 further to the payment by HSBC France of its share of the settlement.

Agreements entered into in prior years and still in force and effect during 2017

Three agreements entered into in 2001 by HSBC France and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2017. 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 and a group tax relief agreement.

The agreement renewed in 2007 between HSBC Holdings plc and HSBC France, giving HSBC France and its subsidiaries free use of the HSBC brand, remained in full force and effect during 2017.

The agreement entered into in 2009, and confirming decisions previously adopted by the Board of Directors, concerning the supplementary defined benefit pension scheme for Senior Executives of HSBC France, remained in full force and effect during 2017.

Board evaluation

Pursuant to the Code's recommendations, a Board assessment was conducted internally at the end of 2016, under the responsibility of the Nomination Committee and on the basis of a questionnaire covering five themes: business performance; human resources, customers, conduct and culture; leadership of the Board; and effectiveness of the Board. 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 8 February 2017.

The overall opinion regarding the Board and its operations remains broadly favourable. Directors noted improvements on the matters raised in the prior evaluation, in particular on the reporting to the Board and increase in time dedicated to business matters during meetings. They also paid tribute to the increase in time dedicated to topics related to customer orientation, covering people, culture and values, and wish this trend to strengthen further. Requests regarding training were addressed by training sessions proposed during 2017. Furthermore the Audit Committee and the Risk Committee have been strengthened.

A new Board assessment was conducted at the end of 2017 based on a questionnaire. Results will be presented to the Board during the first quarter of 2018.

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 their initial election, new Directors receive an information pack on HSBC France, 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 working meetings with HSBC France's main executives in the business lines and functions. This series of meetings is also offered to Directors in office.

In 2017, an outside law firm organised training on the roles and responsibilities of Directors. An e-learning module on IFRS 9 was offered to all Directors and was compulsory for members of the Audit Committee and the Risks Committee. Furthermore, recently-appointed Directors took training in the form of e-learning on the subjects of anti-money laundering, the prevention of corruption, international sanctions, the protection of information, the rebuilding of trust in banking, and 'Embedding Good Conduct' to ensure the fair and equitable treatment of customers, which had been taken by Directors already in office in 2016.

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, some Directors who are external to the HSBC Group are invited every year to the forum organised by the HSBC Group for non executive Directors. Two forums are also organised every year for Audit and Risk Committees Chairs, one by the HSBC Group and the other by HSBC Bank plc for Europe.

Directors' fees

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

The fees are allocated according to the following rules, decided by the Board of Directors at its meeting on 6 February 2016:

- 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 22,500 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 Directors' fees from HSBC Group companies. This recommendation has been implemented by the Directors and Executive Directors of HSBC France and its subsidiaries.

In 2017, in respect of 2016, Jean Beunardeau, Gilles Denoyel, Philippe Pontet, Carola von Schmettow, Antonio Simoes and Andrew Wild renounced the payment of their fees. It has to be noted that, according to this rule, Samir Assaf, Chairman of the Board of HSBC France, does not receive any fee from HSBC France 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' fees.

The total Directors' fees net of social contributions, income tax prepayment and withholding tax to be paid in 2018 in respect of 2017 amount to EUR 0.43 million, to be compared to EUR 0.39 million paid in 2017 in respect of 2016.

Directors' fees and other compensation paid to Non-Executive Directors by HSBC France, the companies it controls and the companies which control it (the HSBC Group)

	Directors' fees paid in 2016 in respect of 2015	**Directors' fees paid in 2017 in respect of 2016**	Other compensation paid in 2016[1]	**Other compensation paid in 2017[1]**
Directors performing executive duties within the HSBC Group				
Gilles Denoyel[2]	–	**–**	EUR584,749	**–**
Philippe Pontet[3]	–	**–**	EUR510,317	**EUR350,000**
Carola von Schmettow[4]	–	**–**	–	**–**
Antonio Simoes[5]	–	**–**	GBP3,369,740	**GBP3,066,781**
Directors elected by the employees				
Ibtissam Bara[6,7]	–	**EUR 7,394**		
Ludovic Bénard[6,7]	–	**EUR 7,816**		
Xavier Bertrand[6,7]	–	**EUR 7,394**		
Véronique Duquesne[7,8]	EUR29,575	**EUR 22,181**		
Michel Gauduffe[8,9]	EUR25,082	**EUR 19,526**		
Guillaume Praud[8,9]	EUR22,225	**EUR 16,669**		
Philippe Purdy[7]	EUR29,575	**EUR 29,575**		
Directors not performing executive duties within the HSBC Group[9]				
Paule Cellard[10]	–	**–**	–	**–**
Martine Gerow[11]	EUR41,275	**EUR 41,275**	–	**–**
Lindsay Gordon	EUR45,500	**EUR 50,750**	–	**–**
Philippe Houzé	EUR31,115	**EUR 31,115**	–	**–**
Alan Keir[12]	-[13]	**EUR 20,417**	GBP187,362[5]	**–**
Anne Méaux	EUR22,225	**EUR 22,225**	–	**–**
Thierry Moulonguet	EUR232,076[14]	**EUR 247,020[15]**	–	**–**
Arnaud Poupart-Lafarge[16]	–	**EUR 5,556**	–	**–**
Lucile Ribot[17]	–	**EUR 16,669**	–	**–**
Brigitte Taittinger	EUR22,225	**EUR 22,225**	–	**–**
Jacques Veyrat	EUR29,845	**EUR 29,845**	–	**–**

1 Fixed and other fixed remuneration, variable remuneration and benefits in kind.
2 Deputy CEO until 1 March 2015. Ending of his directorship on 19 April 2016.
3 Resignation from his directorship on 24 February 2017.
4 Does not receive remuneration from controlled companies by HSBC France nor from companies which control HSBC France.
5 Compensation shown are paid by other HSBC Group companies in respect of his/her executive functions within the Group.
6 Director elected by employees on 26 September 2016.
7 Directors' fees paid to a trade union organisation, net of social contributions.
8 Appointment ended on 26 September 2016.
9 Amounts paid net of social contributions, income tax prepayment, and, where applicable, withholding tax.
10 Co-optation on 8 February 2017.
11 Resignation from his directorship on 21 June 2017.
12 Resignation from his directorship on 12 October 2016.
13 In 2016 Alan Keir held an executive position in the HSBC Group and had thus renounced to receive fees.
14 Of which EUR 50,800 paid by HSBC France.
15 Of which EUR 46,037.50 paid by HSBC France.
16 Appointment on 22 September 2016.
17 Co-optation on 19 April 2016.

Missions and procedures of the Board of Directors

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

- it determines orientations, on the basis of the strategy formulated by HSBC France, at the Chairman's motion, and supervises implementation by the approved senior managers ('*dirigeants effectifs*');
- it approves strategic investments/divestments and all transactions liable to impact earnings significantly;
- it ensures the quality of the information disclosed to shareholders and markets via the annual financial report;
- it sets HSBC France's values and principles;
- regarding governance system oversight and risk supervision, it:
  - reviews the company's governance system, assesses regularly its efficiency and ensures that corrective measures to remedy possible deficiencies have been taken;
  - approves and reviews regularly strategies and policies governing risks taking, management, monitoring and mitigation;
  - approves global risk limits;
  - is informed by the approved senior managers of all significant risks, of risk management policies and amendments made to them;
  - controls publication and communication process;
- it cares about HSBC Group reputation in France;
- it deliberates on all questions pertaining to its legal and regulatory obligations and those stemming from its articles of association.

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' meetings

The Board of Directors met five times during 2017. The average attendance rate was 74 per cent, compared to 89.5 per cent in 2016:

- 8 February 2017 (attendance rate: 78.9 per cent);
- 26 April 2017 (attendance rate: 89.5 per cent);
- 21 July 2017 (attendance rate: 73.7 per cent);
- 31 July 2017 (attendance rate: 50 per cent);
- 27 October 2017 (attendance rate: 77.8 per cent).

The Board's work

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 execution of transformation projects, in particular as regards IT projects and Retail Banking. The Audit Committee Chairman, who was appointed by the Board to monitor of its behalf the modernisation project of the IT infrastructure initiated by HSBC France in 2016, gave an update on this project to each of regular Board meeting. Furthermore the Head of Retail Banking and Wealth Management presented to the Board the Retail Banking business's strategic ambitions (meeting on 8 February 2017). The Board also continued to pay particular attention to the impacts of the low interest rate environment on business and financial performance, as well as the measures taken in response.

During 2017, the Board of Directors examined and authorised the creation by HSBC France of a branch in Greece and the proposed acquisition by HSBC France, on 1 January 2018, of the business of HSBC Bank plc in Greece in the context of the restructuring of HSBC Bank plc to comply with UK legislation concerning separation of Retail Banking activities from Global Banking and Investments operations.

Furthermore, at each of its meetings, the Board of Directors was informed of the plans of the HSBC Group, and of their impact on HSBC France, to ensure the continuity of its activities and of the service to customers in the context of the United Kingdom's withdrawal from the European Union. At its meeting on 26 April 2017, it authorised the creation of a branch of HSBC France in the United Kingdom.

In the meeting held on 27 October 2017, the Board of Directors approved the company's strategic directions and took note of the opinion issued by the Central Works Council on the company's economic and financial situation.

As regards corporate values and culture, the results of the annual employee engagement and the action plans decided in response to this survey were presented to the Board (meeting on 27 October 2017). At the same meeting, the employees training policy was presented.

The Chairman of the Board, who is also a Member of the Group Management Board of the HSBC Group, and Chief Executive Officer, Global Banking and Markets of the HSBC Group, commented, on a regular basis, the HSBC Group's development, results, latest news, as well as trends in the world economic and regulatory environment. The Independent Directors shared with the Board their view of the economic situation and economic conditions in their business sector.

Finance

In 2017, 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 France'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 8 February 2017, the Board reviewed and approved the budget, the capital plan and the risk appetite for 2017. At its meeting on 27 October 2017, it reviewed the initial budget guidance and an initial version of the risk appetite for 2018.

The Board of Directors was informed of developments in regulatory capital and regulatory ratios, in particular capital, liquidity, solvency and leverage ratios, as well as the impacts of the various regulatory developments in these areas, particularly on revenue and the balance sheet. At each of its meetings, the Board received information on the funding plan, funding position and trends in medium- and long-term debt. It also authorised various transactions in those areas. The Board also reviewed and approved the dividend policy, the Internal Capital Adequacy Assessment Process ('ICAAP') and the Internal Liquidity Adequacy Assessment Process ('ILAAP') reports (meeting on 26 April 2017).

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 operational risk, including security and fraud, information systems, litigation, fiscal and people risks. Its review was based mainly on the key risk summary reports (risk control and assessment, top and emerging risks and risk appetite monitoring dashboard), as well as the reports given by the Head of Risk and Chairman of the Risk Committee at the Board meetings. In addition to information given to the Board on a regular basis on this matter, a specific presentation on cybercrime risk was given to the Board at its meeting on 26 April 2017. The Directors have also access to the Risk Committee's supporting documentation.

As regards Financial Crime Compliance, the Board was informed at each meeting of progress in the deployment of Global Standards programme. At the meeting on 21 July 2017, the Head of Remediation Management Office presented to the Board the results of the exercise conducted to ensure appropriate embeddedness of Global Standards and the action plan decided in response to this exercise.

As regards Regulatory Compliance, the Board monitored developments in the function's organisation and deployment of the 'Conduct' programme. The Head of Regulatory Compliance reported to the Board on Regulatory Compliance at the meeting held on 8 February 2017. The Board also reviewed the Ombudsman's report on his activity in 2016 (meeting on 27 October 2017). In the same meeting, the Board was informed of progress in the implementation of the revised Markets in Financial Instruments Directive provisions and of the new requirements it imposes on the Board.

The Board reviewed and approved the annual internal control report, prepared in accordance with the French Government Order of 3 November 2014 (at its meeting on 26 April 2017), which was sent to the ACPR.

The Chairman of the Audit Committee and the Chief Risk Officer, among others, commented on the Internal Audit work, in particular audit reports adverse graded and changes in the number of open recommendations at each Board meeting, except at the meeting held on 21 July 2017. In fact, at this meeting, this report was commented in detail to the Board of Directors by the Head of Internal Audit.

Regulatory environment and supervision

The Board was regularly informed of main regulatory changes and projects, their implementation and impact on HSBC France, in particular as regards IFRS 9 and the revised Markets in Financial Instruments Directive ('MiFID II').

The Board was regularly informed of engagements with the various supervisors and of their missions 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 France's responses. The Board was also informed of the implementation and results of the Supervisory Review and Evaluation Process ('SREP') performed by the Joint Supervisory Team responsible for supervising HSBC France.

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 regulatory supervision, Finance function's organisation, accounting projects and matters, IT, risks, control and risk management system, internal audit, regulatory and financial crime compliance and permanent control.

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

In addition, the Board was informed of progress in the programme to simplify the HSBC France group's legal structure and was advised of or asked to approve various transactions.

Apart from these issues, the Board also discussed various other issues which are its responsibility in accordance with the law and regulations in force, in particular as regards compensation, composition of the Board and of the specialised Board committees, revision of the Board's internal rules, 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' report and the Chairman's report on corporate governance and internal control and risk management procedures for 2016 (meeting on 8 February 2017), as well as the Board's interim report at 30 June 2017 (meeting on 21 July 2017). Likewise, the Board authorised a new related-party agreement (meeting on 21 July 2017) 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 27 October 2017).

Board Committees

The Board is assisted by four specialised Committees: Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee, in accordance with CRD IV Directive and the French Financial and Monetary Code.

Audit Committee

Composition of the Audit Committee

Chairman	
Thierry Moulonguet (independent)	Appointed in 2010 (Member from 2009 to 2010)
Members	
Paule Cellard (independent)	Appointed in 2017
Martine Gerow (independent)	2012 – 2017
Lindsay Gordon (independent)	Appointed in 2013
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, or Chief Financial Officer.

The Audit Committee's missions

The Audit Committee's duties were reviewed, for the last time, in February 2017 and are defined in the Board's internal rules. The 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, control of financial information, capital and liquidity ratios to support the Risk Committee, the dividend and capital allocation policy, management of the Finance function and Internal Audit, in particular:

- to monitor the integrity of the financial statements in order to ensure that information provided gives a true and fair view of the company's position and to examine the findings of the reports issued by permanent and periodic control and compliance teams regarding accounting and financial reporting;
- to review financial and accounting policies and practices;
- to review and discuss with management the effectiveness of internal control systems relating to financial reporting;
- to monitor and review the effectiveness of the Internal Audit function, to consider the major findings of internal investigations and management's response, and to ensure that the Internal Audit function is adequately resourced and has appropriate positioning;
- to discuss with the Statutory Auditors their general approach, nature and scope of their audit and reporting obligations including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgemental areas, all alternative accounting treatments that have been discussed with management together, the nature of any significant adjustments, compliance with accounting standards and other regulations and any other matters the Statutory Auditor may wish to discuss (in the absence of management where necessary);
- to make recommendations to the Board of Directors regarding the appointment, renewal or removal of the Statutory Auditors, their fees and any other issues concerning their duties;

- to review and assess the independence and objectivity of the Statutory Auditors, including supervision of the turnover of the signing partners and the effectiveness of the audit process;
- to apply the code of conduct and the HSBC Group policy concerning the provision of non-audit services by the Statutory Auditors;
- to review the Statutory Auditors' annual report and management letter together with management's response to it, and to monitor the implementation of recommendations made;
- to ensure compliance of the company and its subsidiaries with directives issued by the supervisory authorities and with regulations applicable to them.

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 France's Audit Committee Chairman provides a half-yearly certificate to the Audit Committee Chairman of HSBC Bank plc, HSBC France'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. The certificate is based on work done by HSBC France's Audit Committee as well as the certificates signed by the Chairmen of the Audit Committees or Audit and Risk Committees of HSBC France's subsidiaries.

Audit Committee's work in 2017

The Audit Committee met four times in 2017, with an attendance rate of 91.7 per cent, compared with 100 per cent in 2016:

- 6 February 2017 (attendance rate: 100 per cent);
- 24 April 2017 (attendance rate: 66.7 per cent);
- 17 July 2017 (attendance rate: 100 per cent);
- 24 October 2017 (attendance rate: 100 per cent).

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 the Deputy Chief Executive Officer also attended Committee meetings to answer any questions. HSBC France 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 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 was regularly informed of progress made in the implementation of and of the expected impacts of the new accounting standard IFRS 9 regarding financial instruments, which enters into force on 1 January 2018, as well as work required by Sarbanes-Oxley in this area.

The Committee also examined, at each of its meetings, the bank's risk-weighted assets and the various regulatory and internal capital, liquidity and leverage ratios, the bank's liquidity and funding situation and structural interest rate risk being covered by the Risk Committee.

Once again in 2017, the Committee paid careful attention to monitoring the cost base and cost saving initiatives implemented.

It was also informed of the progress made in the implementation of the Finance Department transformation plan.

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 2016 financial statements. The Committee discussed the Statutory Auditors' audit programme and independence, approved the fees paid in 2016 by the HSBC France group to the Statutory Auditors (meeting on 6 February 2017).

Statutory Auditors presented their diligences on the financial statements at 31 March 2017, 30 June 2017 and 30 September 2017 (meetings on 24 April, 17 July and 24 October 2017), as well as their annual audit plan (meeting on 17 July 2017). The Committee was informed of the impacts of the audit reform. At each meeting, it authorised non audit services provided by the Statutory Auditors to HSBC France and its subsidiaries. It also recommended to the Board to authorise Financial Department management, under certain conditions, to arrange provision of non audit services that are pre-approved by nature (meeting on 24 October 2017). This recommendation was then approved by the Board.

The Committee was also informed of the results of controls conducted on financial statements. Within this framework, it reviewed the work carried out as part of the application of Sarbanes-Oxley: the list of procedures concerned and its development, identified weaknesses, their impact and monitoring, as well as progress in the controls optimisation programme. It 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.

At its meeting on 17 July 2017, the Committee reviewed a new related-party agreement and recommended its approval to the Board of Directors.

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 missions, 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 2017 annual audit plan (meeting on 6 February 2017) as well as the agreement on Internal Audit between HSBC France and the HSBC Group.

Regarding governance matters, the last area of the Committee's work, the Committee examined the section of the Chairman's report on financial information and Internal Audit and reviewed the section of the Board internal rules dealing with the Audit Committee.

The Chairman of the Audit Committee reported on the key points discussed during Audit Committee meetings at the Board meetings held on 8 February, 26 April, 21 July and 27 October 2017.

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
Martine Gerow (independent)	2012 – 2017
Thierry Moulonguet (independent)	Appointed in 2009 (Chairman from 2010 to 2015)
Lucile Ribot (independent)	Appointed in 2017

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 or Chief Financial Officer.

The Risk Committee's missions

The Risk Committee's duties were reviewed, for the last time, in February 2017 and are defined in the Board's internal rules. The Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on matters relating to high level risk-related matters and risk governance:

- to oversee and advise the Board on current and forward-looking risk exposures, HSBC France group's risk appetite and future risk strategy, including capital and liquidity management strategy, and management of risk within HSBC France group;
- to advise the Board on risk appetite and tolerance in determining strategy;
- to advise the Board and/or the Remuneration Committee on alignment of remuneration with risk appetite, and examine whether the incentives resulting from the bank's remuneration policy and practice are compatible with the bank's situation;
- to examine regular reports on risk management related to the HSBC France group's activities, the way in which risks are controlled and monitored by management, and on emerging risks;
- to examine the effectiveness of the HSBC France group's risk management framework and internal control systems (other than internal financial control systems);
- to examine whether the prices of products and services concerned and offered to customers are compatible with the risk strategy;
- to approve the appointment and removal of the officer responsible for the risk management function (Chief Risk Officer) and to ensure his effective role;
- to seek to embed and maintain throughout HSBC France group a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures;
- to review any issue which arises from any report from Internal Audit, the Statutory Auditors' annual report and any queries raised by the Statutory Auditors, and responses from management, which relates to the management of risk or internal control;
- to examine management's reports and statements on the internal control system.

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 France'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. The certificate is based on work done by HSBC France's Risk Committee as well as the certificates signed by the Chairmen of the Risk Committees or Audit and Risk Committees of HSBC France's subsidiaries.

Risk Committee's work in 2017

The Risk Committee met four times in 2017, with an attendance rate of 91.7 per cent, compared with 100 per cent in 2016:

- 6 February 2017 (attendance rate: 100 per cent);
- 24 April 2017 (attendance rate: 66.7 per cent);
- 17 July 2017 (attendance rate: 100 per cent);
- 24 October 2017 (attendance rate: 100 per cent).

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 the Deputy Chief Executive Officer attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility.

Again in 2017, the Committee remained extremely attentive to developments in the regulatory and supervisory environment in which HSBC France operates and to the implications of such developments, mainly on:

- the Work of the Basel Committee and of the European Banking Authority, referred to in conjunction as 'Basel IV', on risks regarding credit, market (notably the fundamental reviews of trading books) and operational risks, the determination of minimum capital requirements and the revision of the Capital Requirements Regulation ('CRR');
- preparatory work on various forthcoming regulations, such as Packaged Retail and Insurance-based Investments Products ('PRIIPS'),the revised Markets in Financial Instruments Directive ('MiFID' II), the directive on insurance distribution, or the revised directive on payment services;
- treatment of non performing loans;
- liquidity risk management framework and internal capital and liquidity adequacy assessment.

The Committee was kept regularly informed of preparatory work conducted ahead of the French presidential elections. Similarly, the Committee remained extremely attentive to the impacts of the interest rate environment on HSBC France and actions taken in response.

The Committee approved HSBC France's risk appetite in the 2017 financial year (meeting on 6 February 2017) and its subsequent updatings, 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 24 October 2017, it examined a first draft regarding risk appetite for the year 2018. In addition to a summary on risks given by the Chief Risk Officer it reviewed at each of its meetings HSBC France's risk map, top and emerging risks facing it, as well as their assessment and the action plans which had been implemented.

At each of its meetings, the Risk Committee continued to carry out a review of financial and operational risk, 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. In relation to economic and geopolitical developments, the Committee examined the HSBC France's exposures to certain sectors. The Committee was also informed of projects regarding credit models;
- 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; the Committee was informed of communications with supervisory bodies, in terms of market risks, in particular as regards an application for approval of a new internal model;

- Liquidity, capital and interest rate in the banking book risks. The Committee approved the Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') reports (meeting on 24 April 2017) as well as the capital plan (meeting on 6 February 2017) and its execution afterwards;
- Operational losses and progress in the implementation of the new operational risks management framework deployed within the HSBC Group;
- Legal risks, included emerging risks, and legal disputes;
- Security and fraud risk, included physical security of premises, highly privileged access management, information security and business continuity. In addition the Committee paid particular attention to cybercrime risks;
- Information systems, including the main incidents and risks, as well as progress in the key projects.

In 2017, the Committee devoted a considerable part of its work to projects. At each of its meeting a specific presentation was given on IT infrastructure modernisation project initiated by HSBC France in 2016. Furthermore the Committee reviewed different projects impacting HSBC France and related to the segregation of Retail Banking activities in the UK and to the exit of the UK from the European union.

The Committee reviewed the work carried out on the internal stress testing programme and HSBC France's contribution to the HSBC Group stress tests performed by the European Banking Authority ('EBA') and the Prudential Regulation Authority ('PRA'), as well as the results of these tests.

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.

At each of its meetings, the Committee was informed of progress made in the work being carried out by Operational Risk department, notably of progress made in the roll-out of HSBC Group's operational risk management transformation programme, as well as 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 essential services governance procedure, whether these services are sub-contracted within HSBC Group or to external suppliers, and likewise of a list of essential services sub-contracted externally, and the results of controls carried out (meeting on 24 October 2017).

Again in 2017 the Committee devoted an important part of its work to the progress in Global Standards programme implementation, one of the HSBC Group strategic priorities, which aims to apply, in a uniform fashion across the whole of HSBC Group, the highest standards in the area of financial crime compliance. The Committee was informed of 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 and engagement with control and supervisory authorities.

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 24 October 2017). It paid attention to matters regarding projects and staffing of the Regulatory Compliance Department. Furthermore, it reviewed the results of compliance assurance review work and controls of inspections of the mechanism which monitors the contributions made by HSBC France to the markets' benchmarks. It was informed of the Regulatory Compliance plan for 2017 (meeting on 6 February 2017) and monitored trends in risk appetite indicators as regards Regulatory Compliance.

The Committee approved the Chairman's report on internal control and risk management procedures (meeting on 6 February 2017) and the annual report on internal control to the *Autorité de contrôle prudentiel et de résolution* (meeting on 24 April 2017) 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 the *Autorité des Marchés Financiers*, the European Central Bank, the *Autorité de Contrôle Prudentiel et de Résolution* or the Prudential Regulation Authority, and received follow-up letters and replies to them in relation to these assignments, as well as action plans initiated to implement their recommendations.

In terms of governance, the Committee reviewed the section of the Board of Directors' internal rules concerning the Risk Committee. The Chairman of the Risk Committee reported on the key points discussed during Risk Committee meetings at the Board meetings held on 8 February, 26 April, 21 July and 27 October 2017.

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
Jacques Veyrat (independent)	Appointed in 2010

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.

The Nomination Committee's missions

The Nomination Committee's duties were reviewed, for the last time, in February 2017 and are defined in the Board's internal rules. This Committee reports its activities to the Board and is responsible for leading the processes 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. To this end, it:

- assesses regularly the structure, size, composition (including skills, knowledge, experience and diversity) and efficiency of the Board of Directors and Board Committees and makes recommendations to the Board with regard to any changes regarding the appointment of any director, the renewal of their terms of office and membership of Board Committees;
- prepares any question regarding corporate governance for the Board's consideration;
- conducts the evaluation of the Board of Directors;
- assesses non-executive Directors' independence;
- reviews and monitors the training and continuous professional development of Directors;
- ensures that plans are in place for orderly succession to senior management positions within HSBC France.

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

Nomination Committee's work in 2017

The Nomination Committee met three times in 2017, with an attendance rate of 77.8 per cent. Its main work concerned:

- reflections on the Board and Board Committees' membership, based, in particular, on considerations regarding skills, knowledge, experience, independence and diversity balance;

- proposals to the Board on renewing Directors' term of office at the Annual General Meeting to be held in 2018 (meeting on 6 December 2017);
- assessment of the individual and collective suitability of Board members, based on the assessment of the knowledge, skills and experience of the Directors and the Board of Directors, the review of Directors' reputation, honesty and integrity and of their independence with regard to the criteria defined in the Corporate Governance Code for HSBC Group companies, to which HSBC France refers, but also of criteria regarding experience, skills, independence of thought and involvement, and on the assessment of the structure, size and effectiveness of the Board (meeting on 6 December 2017);
- the review of the first part of the Chairman's report on corporate governance (meeting on 30 January 2017);
- proposals to the Board regarding the update of the Board internal rule in particular to include the HSBC Group's update of the basic terms of reference of the Board Committees (meeting on 30 January 2017);
- the review of the results of the Board evaluation conducted at the end of 2016 and actions to implement (meeting on 30 January 2017);
- the review and proposal to the Board to approve the updated register of potential situations of conflict of interest (meeting on 30 January 2017).

The Chairman of the Nomination Committee reported to the Board on its work at the Board meetings on 8 February and 21 July 2017. 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
Ludovic Bénard (elected by employees)	Appointed in 2017
Jacques Veyrat (independent)	Appointed in 2010

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.

The Remuneration Committee's missions

The Remuneration Committee's duties were reviewed, for the last time, in February 2017 and are defined in the Board's internal rules. This Committee reports its activities to the Board and is responsible mainly for:

- considering remuneration matters for HSBC France and its subsidiaries in the context of the HSBC Group's remuneration policy and in compliance with local rules, and providing advice to the Board of HSBC France and to the HSBC Group Remuneration Committee on the remuneration policy and structure relevant to HSBC France based on the regulatory context and market conditions. In particular, the Committee makes recommendations and proposals to the Board concerning remuneration, pension and health insurance plans, additional retirement plans, benefits in kind, and other compensation of Executive Directors;
- reviewing annually the policy for the compensation of employees prepared in accordance with the order of 3 November 2014 and the French Monetary and Financial Code, particularly risk takers, employees exercising a control function and any employee with similar compensation levels, whose activities have a significant impact on the Company's risk profile, financial markets professionals whose activities may have a significant impact on the Company's risk exposure;
- proposing the fees for directors for approval by the Board and the Shareholders' General Meeting;
- reviewing and approving any statement required by HSBC France's regulators on the remuneration policy. In particular the Committee reviews the report prepared in accordance with Article 266 of the order of 3 November 2014 and the chapter of the Chairman's report regarding remuneration;
- seeking confirmation from the Risk Committee or Chief Risk Officer, that risk appetite was aligned with performance objectives set in the context of incentive packages.

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.

The Remuneration Committee's work in 2017

The Remuneration Committee met twice in 2017, with an attendance rate of 87.5 per cent. Its main work concerned:

- the review HSBC's general remuneration policy in France, in respect of 2016 and 2017 years, 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 (meetings on 30 January and 6 December 2017);
- the review of the 20 highest remunerations in respect of 2016 and 2017 years (meetings on 30 January and 6 December 2017);
- proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the remuneration of Jean Beunardeau and Andrew Wild in respect of 2016 and 2017 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') (meetings on 30 January and 6 December 2017);
- the implementation of Article 161 of the law relating to transparency, the prevention of corruption and the modernisation of public life, known as 'Sapin 2', which introduced an ex ante vote and then an ex post vote on remunerations by the shareholders' meeting (meeting on 30 January 2017);
- the review of the section of the Chairman's report on remuneration (meeting on 30 January 2017);
- the review of the section of the Board's internal rules concerning the Remuneration Committee (meeting on 30 January 2017);
- the arrangements regarding interactions between the Committee and the HSBC Group Remuneration Committee (meeting on 6 December 2017).

The Chairman of the Remuneration Committee reported to the Board on its work at the Board meeting on 8 February 2017. All of the Committee's work was submitted to the Board for approval.

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	26 April 2017
Expiry date	26 June 2019
Maximum nominal amount	EUR 100 million
Used amount	EUR0

Compensation

Compensation and advantages 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 of specialist consulting firms and the other hand, Group references.

The variable component is determined on the basis of the overall HSBC holdings and HSBC France performance and indicators covering Business Performance & Strategic actions targets (profit before tax, cost savings, comparative growth between revenue and costs (JAW), return on risk-weighted assets, etc.), Global Standards aspects covering risk and compliance areas (implementation of Global Standards, observance of compliance rules, in particular in term of Financial crime, appropriate application of internal rules, enhancement of Know Your Customer process, closure of Audit points, active operational risk management, relationship quality with regulators, etc.), and, finally, Personal objectives, covering in particular effective implementation of restructuring plans, improvement of internal culture on financial crime, increase of women representation in GCB0-3. 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. In addition, from 2016, a specific rating is granted with regard to the Global Standard objectives. 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.

The Deputy CEO of HSBC France, Head of CMB France, also has specific objectives related to his Business.

Award of shares

In 2017, 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 2017, HSBC France 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 France 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 2017, Jean Beunardeau had accrued pension rights representing 8.3 per cent of his 2017 fixed remuneration and 3.8 per cent of his 2017 total remuneration. Andrew Wild, is not entitled to this pension scheme, since he takes benefit of UK pension schemes. The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2017, for an amount of EUR 3.3 million.

Remuneration

Samir Assaf, Chairman of the Board of HSBC France, does not receive any compensation or fees from HSBC France and is not a beneficiary of the HSBC France supplementary pension scheme. 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 France, and Andrew Wild Deputy CEO of HSBC France since 1 March 2015 is detailed on next page.

Lastly, the Executive Directors are also provided with a company car, with the exception of Jean Beunardeau who uses a car made available to him by the company for his professional needs.

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 France, 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[16].

Summary of compensation awarded to each Executive Director – Chief Executive Director[1]

	2014	2015	2016	**2017**
	Compensation paid in 2014	Compensation paid in 2015	Compensation paid in 2016	**Compensation paid in 2017**
	€	€	€	**€**
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	274,324	189,413	178,140	**244.033**
Variable remuneration in shares[4]	274,324	189,413	178,140	**244,033**
Deferred variable remuneration in cash[5]	411,487	284,120	267,210	**366,049**
Deferred remuneration in shares without performance conditions[6]	411,487	284,120	267,210	**366,049**
Deferred remuneration in shares with performance conditions[7]	342,905	105,229	98,967	
Directors' fees[8]	–	–	–	
Benefits in kind	–	–	–	
Total	2,824,353	2,162,121	2,099,493	**2,329,990**

	2014	2015	2016	**2017**
	Compensation for 2014	Compensation for 2015	Compensation for 2016	**Compensation for 2017**
	€	€	€	**€**
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	189,413	178,140	244,033	**272,000**
Variable remuneration in shares[4]	189,413	178,140	244,033	**272,000**
Deferred variable remuneration in cash[5]	284,120	267,210	366,049	**408,000**
Deferred remuneration in shares without performance conditions[6]	284,120	267,210	366,049	**408,000**
Deferred remuneration in shares with performance conditions[7]	105,529	98,967	–	
Directors' fees[8]	—	–	–	
Benefits in kind	—	–	–	
Total	2,162,421	2,099,493	2,329,990	**2,469,826**

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 *Allowance awarded in form of shares and subject to a five years holding period (20 per cent available for sale in year n+1 and 80 per cent in year n+5) till 2015. From 2016, the allowance is awarded monthly in form of cash.*
4 *Shares that vest immediately and are subject to a months' retention period for those granted until 2016 and one year for those granted from 2017..*
5 *Variable remuneration in cash deferred over three years (33 per cent will vest in year n+1, 33 per cent in year n+2 et 34 per cent in year n+3) till 2015. From 2016 this variable remuneration is 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 three years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a six months' retention period till 2015. From 2016, this variable remuneration is 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 fees by HSBC France (see page 26).*

16 *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.*

Deputy Chief Executive Officer[1]

	2014 Compensation paid in 2014 €	2015 Compensation paid in 2015 €	2016 Compensation paid in 2016 €	**2017 Compensation paid in 2017 €**
Andrew Wild				
Fixed remuneration	–	329,167	395,000	**395,000**
Allowance 'Material Risk Taker[2,3]	–	81,667	98,000	**98,000**
Variable remuneration in cash	–	–	76,875	**93,000**
Variable remuneration in shares[4]	–	–	76,875	**93,000**
Deferred variable remuneration in cash[5]	–	–	51,251	**62,000**
Deferred remuneration in shares without performance conditions[6]	–	–	51,251	**62,000**
Directors' fees[7]	–	–	–	
Benefits in kind[8]	–		4,626	**4,626**
Total	–	410,834	753,878	**807,626**

	2014 Compensation for 2014 €	2015 Compensation for 2015 €	2016 Compensation for 2016 €	**2017 Compensation for 2017 €**
Andrew Wild				
Fixed remuneration	–	329,167	395,000	**395,000**
Allowance 'Material Risk Taker[2,3]	–	81,667	98,000	**98,000**
Variable remuneration in cash	–	76,875	93,000	**114,657**
Variable remuneration in shares[4]	–	76,875	93,000	**114,657**
Deferred variable remuneration in cash[5]	–	51,251	62,000	**76,438**
Deferred remuneration in shares without performance conditions[6]	–	51,251	62,000	**76,438**
Directors' fees[7]	–	–	–	
Benefits in kind[8]	–		4,626	**4,626**
Total	–	667,085	807,626	**879,816**

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 six months' retention period.*
5 *Variable remuneration in cash deferred over three years (33 per cent will vest in year n+1, 33 per cent in year n+2 and 34 per cent in year n+3) till 2015. From 2016 this variable remuneration is 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 three years (66 per cent will vest in year n+2 and 34 per cent in year n+3) and subject to a six months' retention period till 2015. From 2016, this variable remuneration is deferred over five years (20 per cent per year from year n+1) and subject to a six months' retention period*
7 *Renounced the payment of his fees by HSBC France (see page 26).*
8 *Company car.*

Shares awarded to each Executive Director in 2018 in respect of 2017

HSBC Holdings plc shares with performance condition

From 2016, shares with performance conditions ('Group Performance Share') are not awarded anymore.

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	26/2/2018	ND	EUR 408,000	20% on each following dates:	20% on each following dates:
				2.26.2019	26/2/2020
				2.26.2020	26/2/2021
				2.26.2021	26/2/2022
				2.26.2022	26/2/2023
				2.26.2023	27.08.2022
Jean Beunardeau	26/2/2018	ND	EUR 272,000	26.2.2018 for 100%	02.26.2019 for 100%
Andrew Wild	26/2/2018	ND	EUR 76,438	20% on each following dates:	20% on each following dates:
				2.26.2019	26/8/2019
				2.26.2020	26/8/2020
				2.26.2021	26/8/2021
				2.26.2022	26/8/2022
				2.26.2023	26/8/2023
Andrew Wild	26/2/2018	ND	EUR 114 657	26/2/2018	26.08.2018 for 100%

Performance shares which became available for each Executive Director in 2017 (Table 7)

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

HSBC Holdings plc shares, without performance conditions, which vested for each Executive Director in 2017 (Table 8)

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Jean Beunardeau	10/3/2014	18,539	–
Jean Beunardeau	2/3/2015	23,714	–
Jean Beunardeau	29/2/2016	16,497	–
Jean Beunardeau	27/2/2017	31,689	–
Andrew Wild	29.02.2016	3,796	–
Andrew Wild	27/2/2017	12,076	–

1 *The shares awarded under the French sub-plan in 2014 and 2017 are available two years after the vesting. The shares awarded under the UK plan are available at the vesting. The immediates shares awarded and vested in 2016 under the UK plan are available for sale six months after the vesting.*

The shares awarded in 2014 were vested for 34 per cent in 2017.

The shares awarded in 2015 were vested for 66 per cent in 2017.

The shares granted in 2016 were vested for 33 per cent in 2017.

The shares awarded in 2017 were vested for 100 per cent in 2017.

HSBC Holdings plc free shares, without performance conditions, awarded in 2017 in respect of 2016, 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)	27/2/2017	372,590	EUR 2,869,266	12.03.2019 for 66% and 12.03.2020 for 34% or 27.02.2017 for 100%	12.03.2019 for 66% and 12.03.2020 for 34% or 27.08.2017for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 34 vests immediately and is available for sale after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, awarded in 2018 in respect of 2017, 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)	26/2/2018	ND	3,096,604	26.02.2020 for 66% and 26.02.2021 for 34% or 26.02.2018 for 100%	26.02.2020 for 66% and 26.02.2021 for 34% or 26.08.2018 for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 34) vests immediately and is available for sale six months or a year after of vesting.*

HSBC Holdings plc free shares, without performance conditions, vested in 2017, 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 2017 (employees or former employees)	470,086	
Of which award 2014	195,951	10/3/2017
Of which award 2015	91,794	14/3/2017
Of which award 2016	8,976	13/3/2017
Of which award 2017	173,365	27/2/2017

1 *The shares awarded under the French sub-plan in 2013 and 2014 are available for sale two years after the vesting ; those granted in 2016 under the UK plan are available for sale at vesting. The immediates shares awarded and vested in 2016 under the UK plan are available for sale six months after the vesting.*

Other information required by the Corporate Governance Code (Table 11)

Executive Director Function First appointed Term ends	Employment contract	HSBC France 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
Jean Beunardeau Chief Executive Officer[2] 1 February 2010[3] 2017	Suspended	Yes	No	No
Andrew Wild Deputy CEO 1 March 2015[4] 2017	Suspended	No	No	No

1 *See page 34.*
2 *Deputy 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 France 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.

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

The People Committee, made up of the main Senior Executives of HSBC France (the Chief Executive Officer also in charge of Global Banking and Markets, the Deputy Chief Executive Officer in charge of the Commercial Banking, the Chief Risk Officer, the Chief Operating Officer, the Chief Financial Officer, the Head of Human Resources and the main Heads of Businesses), 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 French staff by the global business lines on the basis both of the overall performance of each business line and of the relative performance of French 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 ensures that proposed individual compensation packages take into account 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, 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 intervention covers all 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 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 fix variable compensation budgets, is the profit before tax before variable compensation and excluding the change in value of own debt under Fair Value Option 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/Host 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, costs control, comparison of revenue and cost trends (JAWS), trend in provisions for risks ('LICs'), return on risk-weighted assets, completion of Group strategic objectives (in particular increase of cross border revenues, etc.) or regional priorities (customer experience improvement, implementation of local strategic plan if any, etc.) and on the other hand through non-financial metrics such as respect of obligations related to Deferred Prosecution Agreement ('DPA'), implementation of Monitor and/or regulator or Audit recommendations, continuation in implementing Global Standards, risk management which assessment is based on trends on provision for risks, level of risk-weighted assets and corresponding return, liquidity ratio, operational losses, improvement of risk culture within the company, growth in women representation among GCB0-4. These indicators are included in performance scorecard and are analysed by comparison to the previous year and against the budget.

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 twice a year (mid-year and 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, adherence to Global Standards, 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 France level a list of 42 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 38 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 79 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. It has to be noted that among these 79 employees, six of them are employees of HSBC Bank plc branch in France.

For this population, variable remuneration are limited to twice the fixed remuneration, according to the decision made by HSBC France shareholders' general meeting held on 13 June 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 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, 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, 44 per cent of variable remuneration is deferred, and variable remuneration represents 48 per cent of total remuneration. 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 percent, 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.

With effect from 1 January 2017, management companies under certain conditions are governed by the UCITS Directive. in addition of the Alternative Investment Funds Management ('AIFM') Directive already in place since 1 January 2015. In accordance with these Directive, 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 2017, a total of 42 risk takers have been identified. For this population, subject to have a variable remuneration of more than EUR 100,000 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 follow: 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 funds 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 2 members who have the status of external "non executive" Director.

In 2017, 18 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 2017, 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 more subject to any retention period.

Lastly, since 2010, a clawback system 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.

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

	FTE Headcount[1]	Total Remuneration
		€
Executive members	2	3,345,016
Global Banking and Markets	638	100,806,967
Retail Banking and Global Functions	7,129	428,202,833
Total	**7,769**	**529,009,800**

1 *HSBC Staff in France as of 31 December 2017 excluding pre-retirement.*

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 2016	Total fixed pay	Total variable pay
		€	€	€
Executive members	2	3,345,016	1,602,826	1,742,190
Global Banking and Markets	40	30,960,239	15,334,203	15,626,036
Retail Banking and Global Functions	37	14,943,297	8,703,175	6,240,122
Total	**79**	**49,248,552**	**25,640,204**	**23,608,348**

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

	Payments in cash	Payments in shares	Total variable pay
	€	€	€
Executive members	871,095	871,095	1,742,190
Global Banking and Markets	7,953,018	7,673,018	15,626,036
Retail Banking and Global Functions	4,258,501	1,981,621	6,240,122
Total	**13,082,614**	**10,525,734**	**23,608,348**

Total variable pay: distribution between non deferred and deferred amount

	Non-deferred amount	Deferred amount	Total variable pay
	€	€	€
Executive members	773,314	968,876	1,742,190
Global Banking and Markets	8,740,786	6,885,250	15,626,036
Retail Banking and Global Functions	3,749,428	2,490,694	6,240,122
Total	**13,263,528**	**10,344,820**	**23,608,348**

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	484,438	484,438	968,876
Global Banking and Markets	3,482,875	3,402,375	6,885,250
Retail Banking and Global Functions	1,621,857	868,837	2,490,694
Total	**5,589,170**	**4,755,650**	**10,344,820**

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	2,615,991
Global Banking and Markets	14,460,544
Retail Banking and Global Functions	5,468,551
Total	**22,545,086**

This table shows outstanding deferred variable pay corresponding to total unvested deferred remuneration, 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 basis of value at the award. 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 Global Functions	NC	195,000
Total	**NC**	**195,000**

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[1]

	Number of people concerned	Amount of severance payments
		€
Executive members	—	—
Global Banking and Markets	NC	1,390,638
Retail Banking and Global Functions		200,000
Total	**NC**	**1,590,638**

Contributions to defined benefit plan

	Number of people concerned	Contribution to defined benefit plan
		€
Executive members	1	434,000
Global Banking and Markets	—	—
Retail Banking and Global Functions	—	—
Total	**1**	**434,000**

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	4
Between 2 million and 2.5 million excluded	1
Total	**9**

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: 380)	26,887,638	10,728,907	37,616,345
Including employees who have a significant impact on the risk profile AIFMD (number: 42)[1]	6,586,527	4,974,489	11,561,016
Including Senior Managers (number: 18)	2,774,742	1,932,019	4,706,761

1 *Including three 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	Total Remuneration
	€	€	€
Employees identifies as Solvency II staff (number: 17)[1]	4,340,357	3,814,703	8,155,059

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

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO France - Léger Et Associés
43-47 Avenue de la Grande Armée
75116 Paris

Statutory Auditors' report on regulated agreements and commitments

This is a free translation into English of the statutory auditors' report issued in the French language 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 auditing standards applicable in France.

HSBC FRANCE

103, avenue des Champs-Elysées

75419 Paris Cedex 08

To the shareholders,

In our capacity as Statutory Auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with article R. 225-31 of the French Commercial Code ('*Code de commerce*'), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with article R. 225-31 of the French Commercial Code ('*Code de commerce*') concerning the implementation of the agreements and commitments already approved by the Annual General Meeting of the Shareholders.

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

Agreements and commitments submitted for approval by the annual general meeting

In accordance with article R. 225-40 of the French Commercial Code *('Code de commerce')*, we were informed that the following agreements were authorised by the Board of Directors during the year ended December 31, 2017.

With HSBC Bank plc

On 21 July 2017, your Board of Directors authorised a new agreement between HSBC France and HSBC Bank plc. The agreement was signed on 31 August 2017.

This agreement approves the sale and transfer of HSBC Bank plc Business in Greece to HSBC France.

Terms:

The parties of the agreement have agreed on the conditions of the sale and transfer of the Assets and Assumed Liabilities of HSBC Bank plc business in Greece to HSBC France.

Agreement's interest for the company:

This agreement is in consideration of the future regulation applicable to UK banks with deposits in excess of £25 billion, which requires them to separate their retail banking activities from their investment banking and market operations ('ring-fencing').

In order to comply with this new legislation, the activities of the HSBC Bank plc branch in Greece will be transferred to a newly created HSBC France branch in Greece.

This agreement will take effect from 1 January 2018.

Agreements and commitments already approved by the annual general meeting

Continuing agreements and commitments which were entered in the prior years

In accordance with article R. 225-30 of the French Commercial Code *('Code de commerce')*, we were informed that the following agreements, which were entered into in prior years, have continued during the year.

With HSBC Holdings plc

The agreement concluded between HSBC France, HSBC Holdings plc and HSBC Bank plc and setting out the allocation between the three companies of the settlement amount of the transaction intended to terminate the class action on Euribor initiated in the United States, ended following the payment by HSBC France of the transactional amount in February 2017. As this indemnity was provisioned in the financial accounts of HSBC France in 2016, this agreement had no impact in the accounts of HSBC France in 2017.

The renewed agreement in 2007 and ensuring the free use of the HSBC brand by HSBC France and its subsidiaries had no impact in the HSBC France accounts during the financial year 2017.

With HSBC Bank plc Paris Branch

Three agreements concluded in 2001 between HSBC France and HSBC Bank plc Paris Branch also continued their effects in 2017:

- A group wide service agreement for the purpose of rendering services to its members at cost concerning various activities of the two entities;
- Service level agreement issued by HSBC France to HSBC Bank plc Paris Branch concerning various activities.

With respect to these two agreements, the income recorded for 2017 amounted to €4.5 million.

- Tax integration agreement between HSBC Bank plc Paris Branch and HSBC France. With respect to this agreement, a tax income of €23.5 million has been recorded in 2017.

Agreements and commitments relating to the supplementary defined benefit pension scheme for Senior Executives

The agreement, adopted in 2009, confirmed the decisions previously adopted by the Board of Directors concerning the updating of the rules governing the supplementary defined benefit pension scheme for four Senior Executives of HSBC France.

With respect to this agreement, an additional provision for pension commitments has been recorded in HSBC France accounts at 31 December 2017 for €0.4 million.

Neuilly-sur-Seine and Paris, on the 22 February 2018
The statutory auditors

PricewaterhouseCoopers Audit
Nicolas Montillot
Partner

BDO France – Léger & Associés
Fabrice Chaffois
Partner

Sustainability

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.

Implementing the strategy in France

HSBC France is fully committed to the course of action adopted by the Group and presented in its strategy document (http://www.hsbc.com/investor-relations/group-results-and-reporting).

Governance

In 2008, in order to deploy and effectively implement this strategy in France, HSBC France 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.

A Sustainability Committee meets quarterly, with the main objective of reporting on progress or problems with the deployment of this strategy. Additional governance committees have been set up in certain business lines and functions.

This chapter supplements the extra-financial information presented in the strategy document published by the Group in February 2018 and in its half-yearly ESG reports, the last of which was published in November 2017 and is available on the Group website (http://www.hsbc.com/our-approach/measuring-our-impact).

The topics covered in the first part of this chapter correspond to the topics identified as material by the Group's ESG Steering Group and Disclosure Forum: clients, employees, financial crime compliance, HSBC France's local, economic and social impact, and sustainable financing.

This chapter also deals with the regulatory framework introduced by France's 'Grenelle 2' act, and its second section addresses expected requirements not covered in the first section. Finally, the third section provides information about the implementation of France's new act on the duty of care of parent companies and ordering companies.

Customers

HSBC aims to be the first-choice wealth manager for its customers, and strives for excellence in the service and customers experience it provides.

HSBC's customers lie at the heart of its approach, and it strives to provide them with a service that is increasingly simple, fast and suited to their needs.

Understanding our customers

In its April 2017 ESG report (http://www.hsbc.com/our-approach/measuring-our-impact), HSBC has published data on the quality of its customer relationships in its two main business lines, i.e. Retail Banking and Wealth Management and Commercial Banking.

It has implemented policies, processes and a governance system to protect its customers. This framework underpins the way in which the bank does business, develops products and services, trains and rewards its employees and interacts with clients.

Service-quality standards are monitored as closely as possible through indicators that are aligned with performance targets. Those indicators include:

- The customer recommendation rate and
- The speed and quality with which complaints are handled.

Monitoring customer recommendation and satisfaction rates

In France, in 2017, the bank surveyed more than 23,000 retail customers: 79 per cent of them would recommend their relationship manager. 86 per cent said that they achieved what they wanted to achieve when visiting a branch. These figures show high levels of customer loyalty and trust and also the commitment of the bank's Relationship and Customer Service teams.

As regards satisfaction levels among business clients, the Client First programme continued in 2017. This programme forms part of a global HSBC Group initiative. It aims to understand the client experience at key moments in the relationship and to identify what drives satisfaction. Action plans are being adopted for the business lines concerned in order to raise satisfaction levels.

In addition, the study carried out with clients in the Corporate segment (covering companies with revenue of more than EUR 50 million and carried out by Kantar TNS between March and May 2017) shows high levels of satisfaction among business clients regarding their interaction with their relationship managers: the average score was 7.3 out of 10, with 32 per cent of clients giving a score of 9 out of 10.

Complaint handling

The number of complaints fell 6 per cent year-on-year in 2017 for the Retail Banking and Wealth Management network in France.

The quality and speed with which complaints are handled are closely monitored. In 2017, 50 per cent of complaints received a response within 48 hours and 74 per cent within five days. New quality control methods were also introduced.

The main causes of complaints among retail customers in 2017 were:

- a third of complaints related to account operation and pricing: complaints about charges and commissions, and about delays with closing accounts. It should be noted that in mid-2017, initial problems implementing new French legislation making it easier for customers to switch accounts – experienced by the whole finance industry – promoted numerous complaints;
- payment methods accounted for 28 per cent of the total: complaints concerning international and SEPA transfers, cheque deposits and delays and errors related to bank cards;
- customer service and support accounted for 9 per cent of the total: complaints about difficulties experienced by customers when contacting the bank;
- digital banking (internet and mobile) accounted for 7 per cent of complaints, although the number of complaints fell 22 per cent: there was a big fall in complaints about online banking, although customers still regard the secure login process as too complex.

The number of complaints sent to HSBC France's ombudsman rose by 4 per cent compared with 2016. The number of complaints involving the ombudsman increased 26 per cent, with referrals rising from 187 to 236.

In Commercial Banking in France, the number of complaints fell 31 per cent in 2017 (3,925 complaints up to 31 December 2017 versus 5,726 up to 31 December 2016).

The top 12 reasons for complaints account for 77 per cent of the total. Of these, 51 per cent were about account management issues, 38 per cent about payments and 6 per cent about remote banking services. After analysing these complaints, the bank has prepared and is implementing action plans to improve procedures and to improve both service quality and customer satisfaction.

51 per cent of complaints were handled within five business days and 78 per cent in fewer than 15 business days.

Digital Transformation

Bank customers are increasingly using digital tools in their day-to-day lives. This means that what they expect of HSBC and the way they use banking services are changing.

Retail Banking and Wealth Management offers an online account-opening pathway in French and English. In the French market, HSBC France is the only bank to offer such a pathway in English. The number of accounts opened online increased by a factor of eight in 2017. HSBC France also launched its IOS mobile app, exclusively for Jade customers, providing them with direct access to various concierge services, dedicated content, and offers and discounts with international partners. The number of people using the bank's mobile services grew 18 per cent in 2017.

In the business market, 97 per cent of payments were made electronically. The bank is also setting up a publishing system that will fully digitise its Domestic Guarantee archives within the Global Trade and Receivables Finance department.

Staff

HSBC is aware that its people are the key to its success. From setting up systems to encourage staff feedback to developing their skills, the bank is focused on helping its employees realise their full potential and reaching their targets. It wants employees to take ownership of the bank's aims by providing them with the means to realise those aims.

Employee consultation

Employee consultation involves various arrangements, including the HSBC Exchange programme that has been in place at the HSBC Group level since 2012. For managers, this system 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, and the resulting feedback is sent to the HSBC Group. Since the programme was first introduced, it has been clear that employees taking part in a HSBC Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes affecting HSBC.

Every month, HSBC also consults its staff all over the world via a brief 'Snapshot' survey. The survey aims to assess understanding of the bank's strategic priorities and measure perception of current changes through various themes: strategy, Global Standards, communication, customer experience, culture and working methods. The results are consolidated every quarter by business line, country and region, and then presented to the Management Committee. The regular nature of the survey allows the impact of initiatives to be measured and monitored. Results for the third quarter of 2017 show a slight improvement, although overall results in France remain well below Group levels.

These Group initiatives are supplemented in France by a stress-monitoring system (since 2004) and a framework for preventing work-related stress (since 2012). For more details, please see page 52.

Diversity and equality of treatment

HSBC is convinced that diversity and inclusion are vital for the development of a sustainable and prosperous business. The bank's policy consists of encouraging the discussion of various viewpoints in order to stimulate innovation, improve the way in which risks are identified and managed, boost collaboration and help employees to remain agile.

The seven global resource groups play an essential role in this policy and work on the following themes: gender, age, ethnic group, LGBT, religion, work/life balance and disability.

For HSBC France, the global corporate agreement on Diversity and Equality signed by unions and management in November 2014 has four themes:

- promotion of a culture of inclusion in the working environment;
- diversity of ethnic and social background;
- gender equality;
- inclusion of disabled people.

For more details on HSBC France's diversity and equal treatment initiatives, please see page 53.

Equal treatment among executives

In 2017, HSBC France continued to implement its action plan focusing on women's careers, which aims to help women gain access to top-level positions in the company:

- continuing to raise managers' awareness about diversity and gender equality issues and about unconscious bias, via dedicated workshops; managers have been able to take a half-day classroom-based training course on this topic since April 2017;
- supporting women with their development using methods such as mentoring, individual and collective coaching, and the promotion of role models. The aim is to overcome stereotyping and help women colleagues progress to the highest level.

In addition, HSBC France has continued to emphasise better detection of women during talent reviews and in succession planning.

At the end of 2017, six women sat on the HSBC France Executive Committee, while women accounted for 51 per cent of executives and 41 per cent of branch, business banking centre and corporate business centre managers, as opposed to 42 per cent in 2016.

Training

The common thread in HSBC France's training efforts is the creation of an ecosystem that facilitates lifelong learning in a fast-changing banking industry. In addition to skills-development initiatives based on priority themes such as financial crime compliance, strengthening personal, interpersonal, intercultural and digital skills, leadership and management, HSBC France has also adopted initiatives to make employees more adaptable, resilient and versatile. For more details, see page 52.

Whistleblowing system

HSBC strives to create a working environment in which all staff members feel able to share their concerns. However, it is aware that certain circumstances require particular discretion, and so it simplified its whistleblowing system in 2015 by setting up HSBC Confidential. This platform enables employees to share any concerns they may have about any incident or breach of legislation, regulations or internal policies or procedures, in cases where the usual channels for expressing concern are unavailable or inappropriate, without fear of reprisal.

HSBC Confidential is supervised by the Conduct and Values Committee and the Audit Committee. In-depth whistleblowing investigations are carried out independently by experts from the various departments including compliance, human resources, legal, fraud, information security and audit.

There were 41 whistleblowing instances in 2017, of which eleven fell outside of the relevant scope and were referred to the appropriate departments. In 2016, there were seven instances of which one fell outside the scope. Of the remaining 30 instances in 2017, 73 per cent had been resolved by 31 December 2017. 14 per cent of instances concerned justified allegations by staff members. Whistleblowing investigations are carried out within three months of the alert being received. Staff behaviour in the working environment was the main theme of whistleblowing instances in 2017.

Financial crime compliance

As regards financial crime compliance in 2017, the HSBC Group and HSBC France continued to apply the Global Standards programme, which aims to ensure that, everywhere that HSBC operates, there is a consistent system for combating money laundering and terrorist financing, complying with international financial sanctions and fighting corruption. The programme aims to ensure compliance with the following five principles:

- only working with customers we know and trust;
- maintaining consistent financial crime compliance checks;
- ensuring that financial crime compliance is fully integrated into the day-to-day work done by our staff, in the same way that credit risk management is;
- ensuring that all staff exercise their judgement when assessing risks, going above and beyond compliance with rules and guidelines;
- making the system more effective through collaboration between departments and entities.

In 2017, this programme led to the roll-out of common IT solutions to the Group's other entities, in order to fulfil the bank's know-your-customer and transaction surveillance duties. At the same time, staff training initiatives remain ongoing, in order to foster a good financial crime compliance culture, and therefore to help ensure the effectiveness of criminal risk controls as a whole.

HSBC France's territorial, economic and social impact

Through its activity, HSBC France makes its own contribution to the financing of the economy and the smooth running of society. By ensuring a sound business base and sustainable income, the bank is able to distribute dividends to its shareholders, remunerate its employees, pay its suppliers and cover its tax liabilities. The bank supports the development – in France and internationally – of its retail, corporate, institutional and French regional and local authority customers by granting loans, by providing for their future through investments, and via secure domestic and international transactions.

HSBC France – Breakdown of main operating income items

	2017 €m	2016 €m	2015 €m
Levies and taxes	**448**	526	554
Dividend payment	**412**	270	280
Salaries and employee benefits (net of payroll tax)	**620**	790	742

Financing the private sector

Commercial Banking continues to focus on the development of small, medium-sized and large businesses, supporting and financing their projects both in France and abroad. In 2017, Commercial Banking client loans outstanding rose 9 per cent to EUR 11.4 billion.

HSBC Assurances in France maintained its commitment to the Novi investment funds, which encourage growth and innovation among small- and medium-sized businesses, and in 2017 made a further maximum commitment of EUR 14.5 million to the Novi 2 fund. The Novi funds provide funding to growing French SMEs with revenue of between EUR 30 million and EUR 200 million.

HSBC France also owns interests in two social-impact venture capital funds: EUR 0.5 million in Impact Partenaires since 2010 and EUR 1 million in Citizen Capital since 2011.

Financing the public sector

In 2017, French local authorities' use of the bond markets remained at historically high levels with issuance of EUR 2.1 billion, which alone represented 11.5-13 per cent of total annual local authority funding. In this market segment, HSBC France is strengthening its leading position, ranking number one among lead managers for French local authority issuances, well ahead of its rivals due to its experience with these clients. It handled 21 transactions out of a total 59 in 2017 and has handled 142 out of a total of 478 since 2000.

In 2017, HSBC France remained the top-ranked arranger of EMTN (Euro Medium Term Note) programmes for French local authorities, handling 19 out of a total of 24 in the market, including a new programme for *Grenoble-Alpes Métropole*.

HSBC France is also directly involved in diversifying the financing of French local authorities. For *Agence France Locale ('AFL')* – an online bank owned by French local authorities wanting to combine their financing requirements in order to borrow money directly from the bond market – the bank jointly arranged its EMTN programme and jointly led a EUR 250 million tap issue of 0.25 per cent February 2023 bonds.

In addition, hospitals and public-sector healthcare establishments are increasingly seeking to diversify and optimise their financing arrangements. HSBC France is continuing its work to support the development of this market segment. In 2017, HSBC France led a EUR 30 million private placement of 25-year bonds for *Assistance-Publique Hôpitaux de Paris ('AP-HP')*. HSBC France is also the arranger of AP-HP's EMTN programme.

HSBC France is involved in developing the Green Bond market among French local authorities. In 2017, HSBC France jointly led the 'green and responsible' bond issues by *Région Ile-de-France* (EUR 500 million, twelve years) and *Ville de Paris* (EUR 320 million, seventeen years). HSBC also worked with other French public-sector issuers, jointly leading *Caisse des Dépôts et Consignations*' inaugural green bond issue (EUR 500 million, five years), RATP's inaugural green bond issue (EUR 500 million, ten years) and *Agence Française de Développement's* second issue of 'climate' bonds (EUR 750 million, six years).

Supporting communities

In 2017, HSBC contributed a total of USD 137 million to charitable programmes and employees volunteered 255,000 hours in community activities during the working day.

The HSBC Water Programme – a five-year environmental programme due to end in late 2016 – has been extended for a three-year period (2017-2019) with additional funding of USD 50 million, taking HSBC's support to USD 150 million over eight years. HSBC has also renewed its commitment to global educational programmes – the 'HSBC Youth Opportunities Programme' and 'Junior Achievement More than Money' – until 2019. These programmes help young people to access education and realise their potential.

In 2017, HSBC France donated over EUR 2.8 million to community investment programmes. Nearly 1,500 employees completed over 1,800 voluntary assignments, representing more than 10,000 hours, including 79 per cent during work time. In line with HSBC's policy, donations were allocated to projects related to education (26 per cent), the environment (53 per cent) and healthcare (21 per cent).

As regards microfinance, HSBC France's partnership with the *Association pour le droit à l'initiative économique ('ADIE')* began in 2007 and continued in 2017 with an annual credit facility of EUR 2.4 million, the same as in 2016. Support was provided to 587 people, including 76 microentrepreneurs, to launch businesses and 511 disadvantaged people to return to employment through personal microloans. Among these 587 people supported, 457 have been able to maintain or find jobs.

Respecting human rights

HSBC published its Statement of Human Rights in 2015. The statement can be viewed here: www.hsbc.com/~/media/hsbc-com/citizenship/our-values/pdfs/150930-hsbc-statement-on-human-rights.

In 2017, HSBC France implemented a vigilance plan to meet the requirements of France's new duty of care act. For more details, see page 55.

Combating corruption and money-laundering

As part of financial crime risk management, HSBC has a global antibribery and corruption policy, which gives practical effect to global initiatives such as the Organisation of Economic Co-operation and Development ('OECD'), Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and Principle 10 of the United Nations Global Compact. HSBC continues to invest in technology and training; in France, in 2017, 7,949 employees trained on financial crime risk via a mandatory e-learning course.

Sustainable Finance

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.

The Group 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.

More than ever, we need to develop the expertise, innovation and low-carbon solutions required to ensure long-term prosperity for all. 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 unique role in promoting sustainable growth in all of these regions.

HSBC has a long history of supporting the communities and environments in which it operates, and its sustainability strategy is underpinned by that history.

HSBC's commitment to sustainable finance.

- USD 100 billion of low-carbon investments by 2025;
- as regards energy consumption, 100 per cent of electricity from renewable sources in 2030; (see page 54 for details on HSBC France's contribution to reducing the Group's environmental footprint);
- withdrawal from investments in coal, and a more comprehensive and transparent assessment of climate risks;
- application of recommendations made by the Task Force on Climate-related Financial Disclosures ('TCFD') regarding reporting on climate-change risks and opportunities;
- finally, a Centre of Sustainable Finance, aiming to develop HSBC's own intellectual resources in order to strengthen its network of influence.

Green bonds

HSBC France is an established leader in the green bond market, working with its clients as lead manager and advising on the structuring and reporting of Green, Social and Sustainability bonds.

In 2017, on top of issues carried out for French local authorities (see page 47), HSBC France jointly led seven Green Bond issues for Engie (totalling EUR 2.75 billion, with maturities of 6, 7, 11 and 12 years), Icade's Green Bond issue (EUR 600 million, 10 years) and the Green Bonds issues of Bank of Chinas Ltd/Paris in EUR/CNY and USD for a total amount of around EUR 1,25 billion equivalent.

Energy efficiency

In 2017, HSBC Assurances maintained its strong focus on environmental quality as part of its real-estate policy. That involves acquiring properties that meet the highest environmental standards and retrofitting vacant buildings in order to enhance their quality (particularly by seeking accreditation such as *Bâtiment basse consommation ('BBC')* for low energy consumption). 86 per cent of HSBC Assurances' buildings now have 'green' accreditation or are undergoing works in order to secure such accreditation.

The Real Estate Division also supports HSBC France's involvement in developing a low-carbon economy. In particular, it helps its largest clients (developers, investment companies, investment funds etc.) with their plans to develop properties that meet the highest energy and environmental standards. In 2017, it arranged loans or completion guarantees concerning almost 280,000 m^2 of floorspace, including 256,800 m^2 of tertiary space (mainly offices) and 23,100 m^2 of residential space. All of those projects were effectively covered by green certifications.

In 2017, the bank analysed the alignment of HSBC France's financing with a 2°C scenario in the real-estate sector, working with the consulting firm Carbone 4. The conclusions are set out on pages 49 and 67.

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

Investors and asset managers are increasingly factoring environmental, social and governance issues into their financial decisions. HSBC is developing investment products and services to meet increasing client demand in this area and to increase responsible investing flows. HSBC Global Asset Management now integrates environmental, social and governance ('ESG') criteria into all of its investment decisions.

In 2017, ESG integration was applied consistently all over the world, including in emerging-market countries and in most asset classes (equities, corporate bonds, money market and diversified).

Shareholder engagement

Active shareholder engagement is a vital part of HSBC's approach to responsible investing. It encourages companies to adopt best practice consistently over time, and shareholders to use their voting rights to raise concerns about ESG issues.

In 2017, when holding meetings with companies upstream of investment decisions, HSBC Global Asset Management (France) formally started to raise ESG issues with the management teams of 150 European companies.

In 2017, to meet investor demand on both sides of the English Channel, it defined European voting principles, harmonising the previous French and UK voting policies.

Managing climate risk

In 2017, HSBC Global Asset Management (France) changed its internal reporting system. The system now includes company carbon data and ESG/carbon reports are systematically published for institutional clients, in line with Article 173 VI of France's Energy Transition Act. The scope of ESG/carbon reports produced and disseminated in 2017 covered French-registered funds with net asset value of more than EUR 500 million at the end of 2016. The scope will be gradually expanded to cover all funds managed by HSBC Global Asset Management (France). In some cases, the asset management business has even produced reports that, as well as including information on the carbon footprint and ESG scores, provide a practical measurement of how investments contribute to a 2°C scenario.

The Investment Risk team is also involved in the general initiative and in setting up processes to identify ESG/carbon issues within investment policies.

Supporting the transition to a low-carbon economy

In September 2017, HSBC Global Asset Management introduced a low-carbon investment solution, resulting in the HSBC GIF Global Lower Carbon Bond fund for international bonds and the HSBC GIF Global Lower Carbon Equity fund for international equities. The strategies used by these two new funds focus on climate risk and carbon emissions. The aim is to have a carbon footprint that is around half that of their benchmark indexes, by reducing their total exposure to companies and sectors that emit the highest levels of greenhouse gases.

For more information about HSBC Global Asset Management's approach, visit http://www.global.assetmanagement.hsbc.com/about-us/responsible-investment

Managing environmental, social and climate risks in the banking business

Policy for managing environmental and social risks

HSBC 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.

For over 12 years, HSBC has been developing and implementing its own approach to working with business customers to understand and manage environmental and social issues in relation to sensitive sectors and themes.

HSBC's sustainability risk framework is based on robust policies, formal processes and well-trained, empowered people. For more details, visit the Group website: http://www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk

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

In 2017, in accordance with Article 173 of France's act no. 2015-992 of 17 August 2015 on energy transition, HSBC France completed its 2016 assessment of how closely aligned its Energy and Transportation loan book is with the International Energy Agency's 2°C scenario, by evaluating two new sectors, i.e. Real Estate and Industries. As of 31 December 2017, about a third of HSBC France loan book is assessed, on four of the most critical sectors from a climate stake (energy, transportation, real estate, industry). Overall, companies financed by HSBC are climate aligned or even better performers than the sector average. Currently, HSBC customers have limited transition risks. As regards the tertiary real estate sector, the statistical analysis confirmed its materiality in HSBC loan book but could not provide details of its climate performance.

The results shed further light on how aligned HSBC France's loan book is with a 2°C trajectory, and they will play a valuable part in the Group's low-carbon strategy in France.

Grenelle 2

The information below complies with Article 225 of French law 2010-788 of 12 July 2010 on the national commitment to the environment, known as the Grenelle 2 act.

Additional social information

Subcontractor and supplier policy

HSBC has updated the Ethical and Environmental Code of Conduct for Suppliers, to take account of revised legislation on Modern Slavery and Human Rights. It can be viewed at the following address: http://www.hsbc.com/our-approach/supplier-code-of-conduct.

In 2017, HSBC France mapped its supplier-related risks as part of its work to implement France's new duty of care act (see page 55).

In 2017, HSBC France's main businesses (Commercial Banking, Retail Banking and Wealth Management, Global Banking and Markets) and some global functions (Compliance, Human Resources, Finance, IT and the Operations Department) continued to use HSBC Group Service Centres and HSBC Group Finance Centers for their back-office operations. The Krakow, Bangalore, Hyderabad and Cairo centres remain HSBC France's principal partners. The main tasks allocated to GSCs are payment services and account management operations, along with customer due diligence.

At the end of 2017, the total workforce of HSBC's Group Service Centres working for HSBC France was 1023 on a full-time equivalent basis. In 2016, at constant perimeter, the headcount represented 914 on a full-time equivalent basis.

Fair business practices and protecting the client's interests

Governance

Corporate governance is one of the cornerstones of HSBC France's strategy. HSBC France refers mainly to the Code of Corporate Governance for HSBC Group companies.

At 31 December 2017, HSBC France's Board of Directors consisted of 18 Directors: three people who hold positions within HSBC, two members of HSBC France's Executive Committee, nine independent Directors and four Directors elected by the employees. Excluding the employee elected Directors, the Board consists of five women and nine men. In addition, the Board of Directors is assisted by four committees: a Risk Committee and an Audit Committee, both composed of independent Directors, and a Nomination Committee and a Remuneration Committee, both chaired by an independent Director. The Board of Directors has not set up a dedicated CSR committee and receives regular updates on action taken by HSBC France regarding corporate sustainability, including the way the bank's business lines manage the social and environmental impact of their activities.

Compliance

The Compliance function, established at HSBC France in 2001, is responsible for ensuring that the company's activities are carried out with integrity and professionalism, complying with laws, regulations and best practices applicable in France.

In Regulatory Compliance, HSBC has continued to roll out its Conduct framework, which formally sets out HSBC's commitments to ensuring the fair and equal treatment of clients and the integrity of the financial markets, including commitments to:

- provide customers with clear, accurate, precise and non-misleading information on pricing, the nature of products and services, and the associated risks;
- design and offer products that are competitive and easily understood, add value for clients, meet their needs and are suited to their risk profiles, in order to avoid misselling;
- ensure that products and services are managed in accordance with the most demanding standards, with fair and equal pricing and effective, transparent and client-oriented systems;

- ensure that market integrity rules are observed in the relevant business activities;
- maintain a governance system that allows effective supervision of systems to ensure the fair and equal treatment of clients and market integrity.

2017 was a transitional year for the Conduct programme, with preparations being made to adopt the Business as Usual plan. Business lines continued their improvement work organised around five pillars and 15 objectives. Central and HOST functions worked closely with business lines, and are also setting up an organisation that can meet conduct requirements according to the same ethical principles. Communication and training efforts were also maintained in order to enhance the culture and behaviour within the bank in accordance with HSBC's code of conduct.

Accessibility

As part of the Planned Accessibility Agenda presented to the French government in 2016, 248 sites in the Retail Banking and Wealth Management network and in the Commercial Banking network were classified as being open to the public. Of those 248 sites, three had exemptions, 35 were compliant and the remaining 210 needed to be brought up to standard based on a nine-year programme.

23 sites were dealt with in 2016 and a further 20 were being dealt with at the end of 2017.

Additional social information

Workforce at the end of 2017

	2017	2016	2015
Total Employees HSBC France Group	**8,647**	8,956	9,593
– *of which HSBC France*	**8,080**	8,382	8,979
– *of which subsidiaries and branches*	**567**	574	614
Total Full Time Equivalent HSBC France Group	**8,337**	8,647	9,217
– *of which HSBC France*	**7,792**	8,093	8,621
– *of which subsidiaries and branches*	**545**	554	596

* *Employees mainly working in France, except for expatriates (34 at the end of 2017).*

HSBC France's workforce contracted by 3,4 per cent (302 employees) in 2017.

The reduction was mainly due to the following arrivals and departures:

- 782 new employees were hired in 2017, comprising 532 on permanent contracts and 216 on fixed-term contracts, including 187 youth apprenticeship and work-study contracts;
- 1,084 employees left the company, with retirements making up 22 per cent of the total, the end of fixed-term contracts 19 per cent and resignations 30 per cent.

Redundancies represent 14 per cent of the permanent contract departures.

The retention rate among the best-performing staff was 95 per cent.

The structure of the workforce remained stable, with 71 per cent of staff having managerial status, and 51 per cent of managers being women.

At end of 2017, 1,034 employees worked under the voluntary part-time work agreement, equal to 13 per cent of registered employees.

At end of 2017, HSBC France employed 420 disabled people (including 164 who are no longer working).

According to *déclaration obligatoire d'emploi de travailleurs handicapés ('DOETH')* – mandatory disability employment declaration – 2016 definitions, disabled people made up 4 per cent of the workforce, as opposed to the target of 6 per cent. As a result, HSBC France paid EUR 860,000 to Agefiph in 2016.

Remuneration and incentive plans

Salaries and salary developments

In 2016, in the absence of a collective agreement following the annual pay round, management unilaterally decided to implement two measures for 2017.

The first measure consists of setting aside a specific amount of money for selective and individually calculated pay rises for employees aged 45 and over who have not received a pay rise for at least three years.

The second measure consists of setting aside an amount of money to allow individual pay rises in the following situations:

- for the promotion of professional equality between men and women (pay and career equality), as well as fairness between full-time and part-time employees;
- for employees having taken long-term maternity leave, adoption leave or parental education leave;
- for the assessment and possible revision of remuneration for employees with disabilities;
- for the review and possible revision of the remuneration of staff representatives, in application of the agreement of 30 October 2007 on the exercise of the right to organise within HSBC France.

In addition, in accordance with the remuneration policy, a selective salary revision package and a variable remuneration budget are made available to managers, in order to review individual employee situations and to grant bonuses based on individual performance.

Collective incentive plans

A new group employee profit-sharing and incentive system was renegotiated in 2016, still valid for 2017. It covers the same scope as previous agreements, i.e. all employees of HSBC France, HSBC Global Asset Management (France) and HSBC *Assurances Vie (France)*, and applies for three years (2016, 2017 and 2018).

The incentive agreement contains the profit-sharing agreement, and the overall distribution limit was again set at 8.75 per cent of the group payroll (excluding bonuses).

Profit-sharing is based on statutory arrangements, while the incentive plan is based on a percentage of restated profit before tax.

The individual distribution method, which is 50 per cent based on hours worked and 50 per cent based on a capped salary, has been maintained and aims to favour those on the lowest salaries.

HSBC France company savings plan

HSBC France has a company savings plan (including an eight-year future retirement plan called *Plan d'Epargne Retraite Future ('PERF')* in which staff can invest their profit-sharing or incentive payments or make a voluntary payment, and receive an employer top-up payment capped at EUR 2,649 per year for 2017.

The plan includes a range of 16 funds, three of which take into account corporate sustainability criteria in addition to the usual financial criteria.

Collective Retirement Savings Plan ('PERCO')

HSBC France has a PERCO to which employees can make voluntary contributions or transfer days saved in their long-term time savings accounts.

No employer contributions are made to the PERCO. It offers a range of 14 'unrestricted management' funds (including three funds that take into account corporate sustainability criteria) along with the 'guided management' formula, which aims gradually to reduce risk exposure as the beneficiary approaches his/her investment horizon.

HSBC Holdings plc options and bonus shares

With effect from 2001 and following the integration of *Credit Commercial de France ('CCF')* within HSBC, CCF decided that it would no longer grant CCF options to its employees, since they could participate in the stock-option plan of HSBC Holdings Group (B shares) through a French sub-plan compliant with French legislation and tax rules.

Accordingly, a number of HSBC France group employees were granted HSBC Holdings plc stock options from 2001 to 2005.

In 2005, HSBC fundamentally revised its employee option and bonus share policy and implemented the HSBC Share Plan, approved by the General Meeting of May 2005. The regulations provide for the establishment of a French sub-plan (Schedule 5 of the general regulations), which complies with French legislation and tax rules.

The regulations were revised in 2011 to take account of amendments to regulations governing the plan and to formalise the rules of the 'Group Performance Share Plan' intended for HSBC's executives. The French sub-plan (Schedule 5 of the new regulations) also underwent a review to ensure its compliance with local social-security and tax rules.

The objective of the HSBC Share Plan is to motivate executives to create shareholder value and to recognise individual performance. Awards may also be made under this plan to attract or retain talented staff. Since 2006, HSBC's general policy is to no longer grant stock options (except when required by a country's laws and tax rules) but to give priority to the award of bonus shares. HSBC now recognises two categories of bonus shares.

- 'Group Performance Shares', 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.

Group Performance Shares have not been awarded since the 2016 performance year.

- 'Restricted Shares', which are not subject to specific performance conditions, but which only vest if the relevant employee is still with HSBC either immediately or at the end of a period of one, two or three years.

Capital increase reserved for employees (and retired employees) of HSBC in France

HSBC France's employees (current and retired) were not offered the opportunity to buy shares as part of a capital increase in 2017.

Staff welfare

The consolidated amount of payments to the Works Committees and the Central Works Council, based on a percentage of the payroll, was EUR 3.2 million in 2017.

HSBC France has also set up an employee healthcare fund, into which it pays an amount equal to 0.02 per cent of its basic payroll. This HSBC employee healthcare fund supplements benefits granted by *Harmonie Santé* Service – the welfare body for *Harmonie Mutuelle* members – to HSBC employees. The HSBC employee healthcare fund aims to provide financial support to employees in difficult personal circumstances. An HSBC Joint Committee in charge of monitoring the fund defines its action policy.

In 2017, HSBC France also made EUR 8.5 million of socially-oriented payments (housing, back-to-school payments, transportation, childcare, parental allowances and HSBC France loyalty and long-service awards).

Work organisation

Organisation of working hours

Pursuant to the agreement on working hours signed in October 2008, the working year totals 1,592 hours, excluding the paid 'solidarity day'.

For employees whose working hours are recorded, working time can be organized in two ways:

- on the basis of 38 hours per week, which corresponds to 7 hours 36 minutes per day based on a 5-day working week. The number of RTT (reduction in working hours) days in 2017 was 15.5 days for a Monday-to-Friday working week, and 20.5 days for a Tuesday-to-Saturday working week;
- on the basis of 37 hours per week, which corresponds to 7 hours 24 minutes per day based on a 4.5-day working week. The number of RTT (reduction in working hours) days in 2017 was 10 days for a Monday-to-Friday working week, and 14 days for a Tuesday-to-Saturday working week.

Executives working on the basis of a fixed number of days per year are those who hold a position involving a significant amount of autonomy in their time management, and whose main task is to co-ordinate and lead a team and/or whose duties require a high level of expertise in their jobs.

Rights to RTT days for employees working on the basis of a fixed number of days per year, as for senior executives, vary according to their weekly working pattern.

Overtime

In 2017, HSBC France employees worked 80,149 hours of overtime, up 7 per cent compared with 2016.

Work performed in excess of regulated hours mainly takes place under the exceptional work agreement, which represents 66 per cent of overtime hours worked.

Absenteeism

In 2017, the level of absenteeism due to maternity leave was the same as 2016.

In 2017, the rate of absenteeism due to illness was 3.93 per cent, stable year-on-year.

Staff wellbeing and safety

Health and safety

Since the election in June 2017, HSBC France has seven Health, Safety and Working Conditions Committees (CHSCTs) for all its activities in France.

In 2017, the CHSCTs continued their involvement in consultations relating to ongoing renovations and improvements of branches and central buildings, and continued to deal with the consequences on the working conditions particularly especially regarding the implementation of new reorganization projects launched by the management.

Initiatives already underway continued, including the Stress Medical Observatory.

Stress Medical Observatory.

Since 2004 for employees in the Paris region and since 2010 for employees from other regions, HSBC France has provided them with the opportunity to complete the Stress Medical Observatory's questionnaire during their periodic medical examination. An independent firm with IPRP (expert in occupational risk prevention) accreditation is in charge of processing the collected data using a scientific methodology. In 2016, 2,286 employees took part in the Stress Medical Observatory's research.

The results revealed lower levels of stress and depression compared with previous years, whereas the decrease of anxiety observed in 2015 level is maintained in 2016. They also revealed that the average stress level was lower than the level observed in the other firms of the IPRP's panel. On the other hand, the levels of anxiety and depression are a little bit higher than other firms of the panel.

Groups expressing less favourable psychological experiences were found among business-line technicians processing banking transactions, and among the employees of Retail Banking and Wealth Management.

These surveys have helped HSBC France to identify factual elements and then implement action plans to heighten awareness about stress factors and to reduce them through targeted actions, particularly in terms of workload, work organization, ergonomics, special support during organizational changes and suitable training that takes into account developments in the business and support for young people when joining the company.

Framework for preventing psychosocial risks

The Direction of HSBC France with CHSCT representatives supported by the external consulting firm Technologia, continued its work on the working conditions and quality of life in workplace.

To do so, HSBC France based its work on the results of the 6th iteration carried out in November/December 2016. The 7th iteration carried out from 9 to 27 October 2017.

The results of the 6th iteration showed that the last barometer highlighted that the constraint working factors identified by the employees in Retail Banking and Wealth Management, Commercial Banking and the Operations Department are the time consuming and bureaucratic procedures and the computing tools. The indicators of psychosocial risks remain relatively stable compared with the previous iteration.

The psychosocial risks mapping initiative carried out in 2012 will be updated in early 2018 after the 7th iteration launched the 9th of October 2017 and ended the 27th of October 2017 involving a sample of 3,700 employees.

The initial results of this new iteration showed a trend of reduction of risk factors.

These efforts are intended to monitor the effectiveness of initiatives to enhance the wellbeing of HSBC France staff, particularly by the reduction of bureaucracy and the implementation of a new informatics system.

Accidents at work and occupational illnesses

Very few employees are affected by occupational illnesses. They account for an insignificant proportion of total illnesses.

In 2017, the work accident frequency rate (number of lost-time accidents/millions of hours worked) was 10.9 and the injury severity rate for work and travel-related accidents (number of days lost/thousands of hours worked) was 0.3.

Work/life balance

In late 2010, HSBC France introduced a remote working system which enables employees, if their work allows it, to perform part of their activity from home. This is a voluntary arrangement based on the principle of alternating one to three days of remote working with a minimum of two consecutive days of work on company premises in the same week.

By the 2017, 850 employees (11 per cent of the total workforce), primarily in support functions, had opted for this solution, which has been widely implemented within HSBC France, and their average level of satisfaction is high.

Remote working significantly reduces weekly travel time, which allows employees to have a better work/life balance and also helps to reduce the company's carbon footprint.

Social relations: social dialogue and summary of collective agreements

Throughout 2017, the businesses presented reorganization plans and process' optimization to HSBC France's various employee representation bodies (Central Works Council, Works Committees and Health, Safety and Working Conditions Committees). These plans mainly related to Retail Banking and Wealth Management and GBM's Operations Department.

More than 400 meetings were held and more than 3,500 questions were dealt with during 2017 in relation to these plans or to other subjects.

Staff representative elections were held in May and June 2017, and led to the appointment of staff representatives to Staff Delegations, to the Central Works Council, to the three Works Committees and the seven Health, Safety and Working Conditions Committees. After those elections, four unions are representative within HSBC France - CFDT, CFTC, FO and SNB – and are able to negotiate collective agreements.

Within HSBC France, negotiations with unions resulted in the signing of eight agreements and seven amendments to existing agreements including:

- A majority collective agreement relating to the 2018 plan to modernize HSBC France's support functions, including the reorganization of the Technology Department, the Operations Department, the Finance Department, the Purchasing Department and Commercial Banking's Global Trade Receivables Finance department;
- A collective agreement on maintaining contributions to employees' supplementary pension plans in the context of the Modernization Plan for HSBC France;
- An agreement on the scope of distinct establishments with a view to the renewal of the mandates of HSBC France staff delegation members.

Within HSBC Global Asset Management (France), negotiations with unions resulted in the signing of two agreements and four amendments to existing agreements:

- Agreement relating to mandatory annual wage negotiations for 2017 within HSBC Global Asset Management (France);
- Agreement on disability measures within HSBC Global Asset Management (France);
- Group Working Hours Agreement within HSBC Global Asset Management (France).

Training

Developing skills at HSBC

HSBC promotes the '70/20/10' development model.

This model combines the following three complementary learning methods:

- 70 per cent of learning coming from day-to-day job-related experience. In this method, employees seek solutions themselves, on an ongoing basis, according to their needs and the information available to them. This informal method involves employees learning as and when they need to do so, using information available on the bank's intranet, websites and business applications;
- 20 per cent of learning coming from discussions with colleagues, internal and external clients and managers. This method is based on regular feedback regarding which aspects work well and which need improving;
- 10 per cent of learning coming from classroom-based training, e-learning and WebEx sessions. This formal method of training provides a foundation of fundamental theoretical knowledge.

HSBC France's training offering combines global programmes, though HSBC University, and courses designed locally on the basis of priorities and requirements in France.

Strengthening this model is one of the main aspects of HSBC's skills development policy, because it is the only model that maximises impact before, between and after formal training sessions.

Priority skills areas

Financial crime compliance and risk management culture

The staff members most exposed to financial crime risks are able to test their knowledge and take advantage of new development opportunities on these topics via: a dedicated training programme tailored to the various business lines, external ACAMS accreditations, training related to the Global Standards including know-your-customer training, and numerous initiatives co-ordinated by the team in charge of culture change.

On the same topic, employees have received new training relating to new regulatory provisions on granting mortgages.

Strengthening personal, interpersonal and intercultural skills and the digital culture

HSBC France makes particular efforts to develop its employees' personal and interpersonal skills, and especially critical mindsets, creativity, collaboration and agility. English language-learning remains a priority. In addition to pure language skills, intercultural learning sessions are arranged for the many employees who work on cross-border projects.

Initiatives have also been adopted to strengthen the bank's digital culture with respect to specific business lines and functions.

Leadership & Management

Enhancing managerial skills is still one of the main aims of the training plan. Training in this area reflects the fact that several generations of people co-exist within the bank, and takes into account new collaboration and management methods. It is delivered partly at the French level and partly at the regional level as part of HSBC University. In addition, HSBC France will continue targeted individual and collective coaching and co-development efforts. HSBC France also provides managers with video tutorials on day-to-day management, particularly on managing staff performance and handling feedback.

Giving employees greater control over their careers

Several HR initiatives have helped employees gain greater control over their careers by allowing them to review their own professional aspirations, for example through annual career appraisals, 'boost your career' workshops and mentoring.

HSBC France has also started working with OPCA on improving employees' understanding of personal training accounts.

Helping new recruits to integrate and take on their new roles

HSBC France fills around 1,000 positions each year, with both internal and external candidates, and so it is vital that new recruits integrate and take on their new roles successfully. The bank has adopted several initiatives: giving new arrivals a tour of the bank, setting up an integration programme for young graduates, helping managers get up to speed with a clear training plan (tools, tutorials, classroom-based learning) and mentoring.

Improving the quality of working life and promoting diversity

At a time of major change and greater uncertainty in the business environment, employers must pay particular attention to the quality of working life and the wellbeing – particularly the mental wellbeing – of their employees.

In 2017, HSBC France continued to roll-out a training programme focusing on improving the quality of working life.

At the same time, as regards diversity, the bank designed and deployed a training programme for managers about understanding unconscious bias.

Diversity and equality of treatment

In terms of gender equality, the aim is to encourage equal career opportunity, pay, training and work/family life balance for men and women. HSBC therefore continues to improve paternity leave rights and has made quantified undertakings to increase the proportion of women with managerial grade, in areas where they are under-represented.

To better identify and combat gender discrimination in career and pay development, two methods of analysis supported by both unions and management have been renewed.

One concerns careers and monitors promotion indicators for men and women over several years.

The other deals with pay, with a specific focus on wage equality. Since 2004, the bank has spent EUR 8 million in this area. The same wage equality analysis is carried out for staff representative bodies, people with disabilities and employees over 50 years of age.

Integrating young people and passing on knowledge

A '*Contrat de Generation'* (generation contract) action plan was adopted by HSBC France, HSBC Global Asset Management (France) and HSBC *Assurances Vie* (France) in May 2016. It covers the period from 1 January 2016 to 31 December 2018.

It is intended to support the sustainable integration of young people into the workforce and maintain employment among older people, thus making it easier to pass on skills and expertise within the bank. In 2017, 194 young people aged 26 or under were hired on permanent contracts at HSBC France, HSBC *Assurances Vie* (France) and HSBC Asset Management (France).

Efforts to combat discrimination

HSBC values meritocracy. Given the same level of skills and performance, everyone has the same chances of being hired and of progressing throughout the company, regardless of their ethnic or social origins.

E-learning training for managers on this thematic continued in 2017.

Awareness training for all employees was also maintained. It aims to make them aware of the seriousness of stereotypes and prejudice with which we view others as well as within the context of individual actions and decisions. It focuses on various possible causes of discrimination: ethnic origin, gender, family status, sexual orientation, age, disability and working arrangements (remote working or not).

The career opportunities and development of people with disabilities are monitored separately.

HSBC France also recruited 40 people as part of its 'summer jobs' campaign, in conjunction with its partner associations that work to promote equal opportunity: *Sciences Po, Fondation Egalité des Chances and Tremplin.* This initiative is intended to enhance diversity of origin among candidates for summer assistant jobs.

Disabilities

At 31 December 2017, HSBC France had 420 disabled employees, including 164 who are no longer working (second degree disability). In 2017, 50 new employees declared a disability.

As regards keeping disabled people in work, each case is treated separately, in conjunction with the special disability advisor. If a workstation needs to be adjusted, the Disability Advisory Department takes care of it and pays for it. In 2017, 35 workstation adjustments were carried out, including ergonomic chairs, armrests, special mice, keyboards for partially sighted people, ZoomText magnification software, 27-inch screens, headsets and the provision of parking spaces. An ergonomist carried out three workstation reviews.

As regards recruitment, HSBC took part in four virtual forums organised by *Talents Handicap* and *Hello Handicap*, along with a *'Les Mardis du Handicap'* recruitment day. In total, HSBC recruited eight new disabled employees on permanent contracts, along with one disabled temporary employee, one disabled intern and four disabled young people on summer assistant contracts.

To improve day-to-day living standards, 498 disabled employees or employees with a disabled close relative received 'CESU' cheques (enabling them to pay for domestic help) financed entirely by HSBC, while nine employees received support for buying individual equipment to alleviate their disability, such as hearing aids and other devices.

Additional environmental information

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. HSBC 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 France 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.

Improving energy efficiency – sustainable use of resources

Energy efficiency in buildings

In 2017, the main areas of action involved renovating buildings, actively seeking to reduce energy consumed in the management of HSBC sites and promoting remote working.

Carrying on from the HQE certification it obtained for *Coeur Défense* in 2011 and the *'NF HQE™ Bâtiments Tertiaires en Exploitation'* energy efficiency certification, under which it achieved an 'excellent' rating for 14 new criteria in 2016, HSBC France continued the work needed to maintain these certifications in 2017.

The 2017 annual review not only confirmed the 'excellent' rating in relation to these certifications, but also increased HSBC France's star rating by one star in the comfort category.

Water consumption

In 2017, HSBC France's water consumption continued to fall, mainly due to a decrease in the amount of space occupied following the move out of the Ile de France building in 2016. In addition, HSBC France has stepped up its efforts to prevent water leaks, with regular inspections at the *Cœur Défense* building and careful monitoring of any unusual water consumption in the branch network.

Reducing CO_2 emissions

Greenhouse gases and carbon footprint

In accordance with French decree no. 2011-829 of 11 July 2011 on greenhouse gas emission footprints and the local climate energy plan, HSBC France has compiled and published reporting documents, showing a reduction in tonnes of CO_2 equivalent produced for the sixth consecutive year.

HSBC France's main sources of CO_2 emissions stem from energy consumption and transportation.

Information on the company's 2017 greenhouse gas emission footprint will available on http://www.about.hsbc.fr/fr-fr/ hsbc-in-france/community.

Reducing CO_2 emissions related to business travel

In 2017, business travel increased by 4.9% compared with 2016 in terms of kilometres travelled, while CO_2 emissions caused by business travel increased by 2.8 per cent. This was mainly due to the relocation to France of the Head of International Procurement responsible for some of the Group's markets, coupled with the creation of a number of working groups in preparation for Brexit, and a six-month Group Procurement assignment (one of the two employees selected for the assignment was based in France).

HSBC France reorganised the way it manages its vehicle fleet in 2017. Fleet management was outsourced and the selection of service vehicles and company cars available to employees no longer contains any diesel vehicles. Diesel vehicles will be phased out of the existing fleet as and when they are due for replacement.

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.

HSBC France has five sites that require a mobility plan, and so has started work to make the sites concerned compliant with the new rules. The plans cover more than 5,600 employees across three sites in the Paris region: *Courbevoie, Paris 8th arrondissement* and *Paris 9th arrondissement,* and two sites elsewhere in France: Lyon and Fussy, near Bourges.

HSBC France decided to implement its first action plan at the Courbevoie site, gaining experience that it will apply across the other sites concerned.

The main stages of the process at HSBC France will be as follows:

- assessing staff journeys, i.e. journeys between home and work (distances and travel time), site accessibility (site surveys) and practices and habits (mobility survey).
- formalising a plan of action based on the issues arising and any identified potential improvements.
- dividing the plan of action between working groups and supporting their deployment.

Circular economy

Reducing paper consumption and improving paper recycling

Paperless projects continued in 2017.

For example, the e-signature pilot project for business customers of BBC Live in 2017 prevented the sending of 700 letters comprising a total of 8,000 sheets of paper. The new eDocuments function was launched in 2017 for the two online banking services ElysPC and HSBCnet. This function is reducing the number of letters sent per year by an estimated 900,000, and paper consumption by around 1,800,000 sheets.

Using the 'Direct To Demat' publishing system for domestic guarantees at Global Trade Receivables Finance will enable it to avoid printing more than 60,000 pages per year.

Also in 2017, all of HSBC France's central site teams were equipped with GMPS printers featuring badge readers. Usage reports – showing the number of black-and-white and colour pages printed – are now sent to managers each month, allowing them to monitor and control paper consumption.

Reducing production of non-recycled waste

Waste production fell by 34% in 2017 compared with 2016, a year in which there were many relocations that generated a lot of waste. In addition, the introduction of a new pull printing solution has led to a reduction in the number of pages printed and therefore the number of ink cartridges used.

Reducing food waste

At the *Coeur Défense* site where most of our employees work, our partner Sodexo has adopted a number of initiatives:

- predicted footfall is managed on a weekly basis, factoring in variables such as the weather forecast, the previous week's figures and other information (conferences, non-business days, mandatory reductions in working time etc.);
- inventories are checked weekly to identify all items approaching their use-by or best-before dates;
- all production is governed by qualitative and quantitative specification sheets so as to avoid spoilage, incorrect cooking or production errors;
- in terms of service, teams undergo awareness-raising in order to avoid serving excessive portions resulting in uneaten food.

The HSBC France Works Committee canteen has adopted the same initiatives. In June 2017, it started using a desiccation machine to turn organic waste into compost. The machine takes around 130kg of organic waste per day and turns it into 20kg of compost, which is taken away by a partner and fed into an anaerobic digester. The canteen managed by the bank itself also favours regional and fresh produce, and is using more organic ingredients to ensure food safety for employees but also environmental responsibility. Efforts are also made to encourage employees to have a balanced diet and eat more plant-based protein.

Pollution

Measures to prevent, reduce or repair emissions into the atmosphere, soil and water that may severely affect the environment – Consideration of noise and any other form of pollution specific to a business – Land use

HSBC France's main environmental and pollution risks stem from the businesses it finances, which are committed to managing environmental impacts as stated in the section on 'Policy for managing environmental and social risks', page 116.

The banking activity does not require any industrial process that may affect the atmosphere, water or soil. The only impacts of HSBC France which could affect the environment are related to its waste management, mostly computing and paper waste.

Valeurs Mobilières Elysées (formerly known as Nobel), a wholly-owned subsidiary of HSBC France acquired in 1986, was initially a manufacturing company that ended its manufacturing activities in 1965. Pursuant to its obligations, *Valeurs Mobilières Elysées* has, for several years, measured the quality of groundwater in the area in which it conducted its manufacturing activities. The measurements for 2017 show a satisfactory quality of groundwater, with concentrations below maximal guide values for most of the relevant parameters. However, the measurements obtained by two of the piezometers show certain concentration anomalies, although readings were stable compared with previous measurements.

Consideration of noise

Banking is a service activity that does not involve any industrial processes and therefore does not cause any particular noise pollution.

Land use

HSBC France conducts its activity in existing buildings and does not plan any new construction projects that could result in new land uses or require an extension of its existing land use.

Protecting biodiversity

HSBC, including HSBC France, contributes to protecting biodiversity through its environmental community investment programmes (see page 48), its compliance with the Equator Principles and the application of environmental and social risk management procedures in its lending and project finance activities (see section on 'Sustainable Finance', page 116).

Financial risk

Given its business sector, HSBC France has no provision or guarantee for environmental risks.

France 'Duty of Care' act

HSBC France has implemented a vigilance 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.

The plan forms part of a framework established by the HSBC Group which, through its various statements and policies, has already adopted certain rules and procedures seeking to prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment. This framework therefore applies to HSBC France and to the offshore service centres from which HSBC France outsources certain activities.

These statements and policies are available on the Group website (http://www.hsbc.com/our-approach/measuring-our-impact):

- Modern Slavery and Human Trafficking Statement;
- Statement on human rights;
- Health and safety policy;
- Environmental policy;
- Sector policies;
- Whistleblowing statement.

HSBC France has chosen to integrate the duty of care-related risk map into the risk maps of its various business lines and functions. As a result, the related control measures are integrated into its existing risk management and internal control systems.

In 2016, HSBC updated its Ethical and Environmental Code of Conduct for Suppliers of Goods and Services to take account of revised legislation on Modern Slavery and Human Rights (http://www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers). When forming new contracts or renewing existing ones, HSBC France's suppliers are required to sign this code of conduct. Since the HSBC Group is in the process of introducing a system for regularly assessing its suppliers, HSBC France has prepared a specific monitoring plan for the first year in which the French duty of care act applies.

As regards suppliers, a detailed analysis has already been carried out on those with which HSBC France has an established and significant commercial relationship, i.e. those involving invoices totalling more than EUR 500,000 or more per year in the last three years. HSBC France has identified eight suppliers located in risky countries (according to the methodology defined by the Group) and/or risky sectors (identified by the HSBC Group as showing the greatest potential sustainability risk (http://www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk).

A specific annual monitoring plan is being prepared for this list of suppliers. It will be handled by the Subject Matter Experts in the business lines under the BRCM control.

Regarding the impact of bank financing on potential breaches of human rights and environmental protection, the sustainability risk management policy adopted by the HSBC Group for more than 12 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, freshwater infrastructure, 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. The HSBC Group has applied the Equator Principles since they were first developed in 2003, including the latest version (EP3) since 2014.

Regarding whistleblowing, HSBC France already has a system through which employees can report the existence or realisation of risks.

Discussions with unions are underway and should be completed in 2018.

Methodological details on corporate social and environmental information

Scope of reporting

The scope of each indicator is shown in the table of sustainability performance indicators of the HSBC Group in France. The scope may vary depending on the availability of data or type of indicator.

Thus, corporate indicators concern the HSBC France group or HSBC France legal entity, whereas environmental indicators concern the HSBC Group in France or HSBC France excluding the *Reims* office, which accounts for less than 1 per cent of our total floorspace.

The social indicator relating to 'Investment of the HSBC EE *Diversifié Responsable et Solidaire* company savings fund for the benefit of solidarity-based companies' is communicated within the scope of HSBC Global Asset Management (France), a subsidiary which is in charge of these indicators for HSBC in France.

Change in scope

For environmental indicators, entities consolidated or deconsolidated 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). In 2017, for environmental indicators, the reporting period is from 1 October 2016 to 30 September 2017.

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 HSBC Group uses the Peoplesoft HR database. Information that appears in reporting documents is the result of querying this database. The actual number of training hours was not available on the date this document was published. The provisional number of training hours for 2017 is based on actual figures for the period ended November 2017, remaining figures for the last month were estimated from the information system, which are currently being validated.

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 comprises employees under permanent and fixed-term employment contracts. Internship, temporary and suspended contracts, employees taking early retirement, employees on long-term sick leave, permanently disabled employees and expatriates are included. Holiday auxiliary staff are excluded. Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. More than one hire will be recorded for a person hired more than once under a fixed-term contract during the reporting period. Likewise, an employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire. Only the reasons for departures representing 20 per cent of departures are detailed. The number of employees who work from home include those having signed an endorsement to their contract enabling them to work from home.

Societal indicators

Concerning the 'Investment of the HSBC EE *Diversifié Responsable et Solidaire* company savings fund for the benefit of solidarity-based companies' indicator, the companies considered as solidarity-based are those having received 'solidarity-based' approval from the prefecture or those with related solidarity-based status, i.e. those where at least 35 per cent of assets are made up of securities issued by solidarity-based companies.

Table of sustainability performance indicators of the HSBC Group in France

	Indicator	Change 2017	2016	2015
Financial Indicators (Scope HSBC France group*)				
1	Pre-tax earnings (EURm)	**219**	432	618
	Total shareholders' equity (EURm)	**5,676**	5,842	5,838
	Cost Efficiency Ratio (%)	**84**	78	69
	Liquidity Coverage Ratio (%)	**149**	122	120
	Net Stable Funding Ratio (%)	**116**	120	NA
	Advances to Core Funding ('ACF') ratio (%)	**NA**	NA	98.1
	Common Equity Tier 1 ('CET1') Ratio (%)	**13.1**	13.2	14.9
Sustainable Economy (Social indicators) (Scope HSBC in France*)				
2	Number of financing for regional authorities made on the bond market	**20**	9	10
	Number of financing for AFL	**1**	1	1
	Number of financing for Public-sector Healthcare Establishments	**1**	1	8
3	Equator principles – Category A – number of projects financed and their value (EURm)	**ND**[1]	0 and 0	0 and 0
	Equator principles – Category B – number of projects financed and their value (EURm)	**ND**[1]	0 and 0	0 and 0
	Equator principles – Category C – number of projects financed and their value (EURm)	**ND**[1]	0 and 0	0 and 0
	Consultancy (Number)	**ND**[1]	0	0
4	Lines of credit allocated to Adie (EURm)	**2.4**	2.4	2.4
	Amount of microfinance loans made via ADIE partnership (EURm)	**2,215**	2,105	1,830
	Number of microcredits disbursed (Adie)	**587**	571	554
5	Company saving plans: total assets of the SRI range (EURm)	**355**	310	222
6	Investment of the HSBC EE *Diversifié Responsable et Solidaire* company savings fund for the benefit of solidarity-based companies (EURK)	**6,464 4,000 Adie, 314 SIFA, 2,150 Habitat et Humanisme**	5,462 3,001 Adie, 311 SIFA, 2,150 Habitat et Humanisme	5,462 3,001 Adie, 311 SIFA, 2,150 Habitat et Humanisme
7	Number of customer complaints submitted to the Ombudsman	**751**	723	744
	Number of complaints processed and signed by the Ombudsman	**236**	190	190
8	Level of satisfaction of our retail customers: customers claiming to be 'very satisfied' (%)	**47**	48	47
	Customer recommendations during the past two years (%)	**33**	36	36
Environmental Footprint[2] (Scope HSBC in France*)				
9	Energy consumption (GWh)	**52**	59	58
	Energy consumption in MWh/FTE[3]	**6.25**	6.8	6.32
10	Transportation (millions of km)	**30.2**	28.81	34.85
11	Direct CO_2 emissions (thousands of tonnes equiv. CO_2)	**6**	6.09	6.64
	– direct CO_2 emissions (energy)	**2.73**	2.91	2.98
	– direct CO_2 emissions (transportation)	**3.27**	3.18	3.66
12	Water consumption (thousands of m^3)[4]	**101**	109	134
	Water consumption per FTE[3] (m^3)	**12.13**	12.55	14.55
13	Paper consumption (tonnes)	**833**	892	1,146
	% of FSC paper	**93**	96	94
14	Waste production (tonnes)	**973**	1,484	1,489
	Waste production per FTE[3] (kg)	**117**	172	162
	% of recycled waste/total waste	**92**	83	80
Human resources and security (Scope HSBC France*)				
15	Total workforce[5] (number): Women (W) / Men (M)	**4,665 W 3,415 M**	4,845 W 3,537 M	5,169 W 3,810 M
	Recruitments	**782**	517	953
	Dismissals	**122**	103	85
16	Organisation of working hours Absenteeism[6] (%)	**3.9**	4	3.6

Table of sustainability performance indicators of the HSBC Group in France (continued)

		Change		
Indicator		**2017**	2,016	2,015
17	Equal treatment:			
	– number of persons with disabilities	**420**	382	362
	– number of recruitments via the IMS and Mozaik HR	**–**	–	82
	– % of employees less than 30 years old	**11.4**	10.62	13.1
	– % of employees over 50 years old	**30.4**	30.8	29.3
	– % of women in management	**19.9**	18.8	18.2
18	% of non-executive directors at 31/12	**50**	47	37
19	Number of employees teleworking	**850**	840	721
20	Health and safety:			
	– number of fatal accidents at work	**–**	–	–
	– number of accidents resulting in more than 3 days of work incapacity	**105**	123	116
	– rate of work- and travel-related accidents[7]	**10.9**	9.9	10.7
	– severity rate of work- and travel-related accidents[8]	**0.3**	0.3	0.3
21	Workforce split by status, gender and contract of employment (number):			
	Total workforce	**8,080**	8,382	8,979
	– *of which unlimited term contracts*	**7,838**	8,151	8,586
	of which men managers	**2,819**	2,982	3,072
	of which women managers	**2,922**	2,899	3,038
	of which women clerical staff	**1,623**	1,743	1,893
	of which men clerical staff	**474**	527	583
	– *of which fixed-term contracts*	**242**	231	393
	of which men managers	**4**	9	9
	of which women managers	**8**	4	12
	of which women clerical staff	**4**	7	26
	of which men clerical staff	**3**	5	9
	of which women in apprenticeship	**108**	104	169
	of which men in apprenticeship	**115**	102	168
22	Training (total number of hours)	**334.685**	367,111	358,095
Sustainable communities (Scope HSBC in France*)				
23	Sponsorship budget (EURm)	**2.9**	2.8	3.2
	% of the Community Investment donations/pre-tax earnings	**1.32**	0.65	0.52
	% approx. employees involved in volunteer SD activities	**18**	15	16
	Number of hours of volunteer work during work hours	**8,427**	8,118	9,577

1 *Details on 2016 figures will be published on the HSBC Group's internet site 'Citizenship'Section in April 2017.*
2 *Figures calculated over the period from 1 October 2016 to 30 September 2017.*
3 *Full-Time Equivalent.*
4 *100% of water consumption supplied by public network.*
5 *See also page 50.*
6 *Number of working days of absences due to sickness/number of total theoretical working days.*
7 *Rate of work- and travel-related accidents calculated using the following ratio: (number of accidents resulting in lost time/millions of hours worked).*
8 *Severity rate of work- and travel-related accidents calculated using following ratio: (number of working days lost due to work- and travel-related accidents/thousands of hours worked).*
* *HSBC France is a 99.9 per cent-owned subsidiary of HSBC Bank plc. The HSBC France group corresponds to the perimeter of the consolidated financial statements and HSBC France corresponds to the perimeter of the individual financial statements.*
HSBC in France's scope of operations comprises the operations of the HSBC Group in France, which includes the HSBC France group and the Paris branch of HSBC Bank plc (excluding intra-group funding costs).

Report by one of the Statutory Auditors, appointed as an independent third party, on the human resources, environmental and social information included in the management report

For the year ended December 31st, 2017

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 should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditor of HSBC France (the 'Company'), appointed as independent third party and certified by COFRAC under number 3-1060 (whose scope is available at www.cofrac.fr), we hereby report to you our report on human resources, environmental and social information for the year ended 31 December 2017, included in the management report (hereinafter named 'CSR Information'), pursuant to article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the 'Methodological information, Methodological details on CSR information' procedures used by the Company (hereinafter the 'Guidelines') and available on request from the company's head office.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics *('Code de déontologie')* of our profession and the requirements of article L.822-11-3 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements and applicable legal and regulatory requirements.

Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

However, it is not for us to express an opinion on the compliance with the other legal provisions applicable, in particular those set out by the article L. 225-102-4 of the commercial code (plan of vigilance) and by the law n° 2016-1691 of December 9, 2016 known as Sapin II (fight against corruption).

Our work involved 5 persons and was conducted between November 2017 and February 2018 during a 5 week period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with the professional guidance issued by the French Institute of statutory auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement and with ISAE 3000 concerning our conclusion on the fairness of CSR Information (Assurance engagements other than audits or reviews of historical financial information).

1 Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

Conclusion

Based on the work performed, we attest that the required CSR Information has been disclosed in the management report.

2 Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted 20 interviews with about 20 persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important:

- we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. This work represents 100% of headcount considered as typical size of the social component, and 100% of environmental data considered as characteristic variables of the environmental component

For the remaining CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are 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. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, February 22, 2018

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Nicolas Montillot	Pascal Baranger
Partner	Director in the 'Sustainable Development' Department

Annexe

CSR Information that we considered to be the most important

Human resources

- Total workforce and split by gender, age and geographical area;
- Hires and dismissals;
- Compensation and variation;
- Worktime organisation;
- Absenteeism;
- Organisation of social dialogue;
- Training policy;
- Training hours;
- Implemented policy and measures taken in favour of the equality between the women and the men;
- Implemented policy and measures taken in favour of the employment and of the insertion of the disabled people;
- Policy against discrimination.

Environmental information

- Organisation of the company to take into account the questions of environment;
- Measure of prevention, recycling and elimination of waste;
- Water consumption and water supply according to the local constraints;
- Consumption of raw materials and measures taken to improve the efficiency of their use;
- Energy consumption, measures taken to improve the energy efficiency and resort to the renewable energies;
- Significant greenhouse gases emissions contribution generated due to the company activity, including the use of goods and services it products.

Social information

- Territorial, economic and social impact in respect of employment and regional development;
- Territorial, economic and social impact on the waterside and nearby populations;
- Conditions of the dialogue with the stakeholders;
- Actions of partnerships or sponsorship;
- Taken into account the social and environmental issues in the policy purchase;
- Importance of the subcontracting and taken into account in the relations with the suppliers and the subcontractors of their corporate social responsibility;
- Actions committed to prevent the corruption;
- Measures taken in favour of the health and of the security of the consumers.

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 2017	31 Dec 2016
	%	%
Capital Ratios (phased-in)		
Common Equity Tier 1 Capital	**13.1**	13.2
Tier 1 Capital	**13.5**	13.2
Total Capital	**14.1**	13.2
Leverage Ratio (phased-in)	**3,7**	4,0
Liquidity Ratios		
Liquidity Coverage Ratio	**149**	122
Net Stable Funding Ratio	**116**	120

Risk-Weighted Assets – by Risk Type

	At	
	31 Dec 2017	31 Dec 2016
	€m	€m
Risk Weighted Assets		
Credit Risk[1]	**22,446**	20,865
Counterparty Credit Risk	**3,036**	3,707
Market Risk	**5,188**	7,907
Operational Risk	**3,385**	3,537
Basel 1 floor impact	**1,324**	–
Total Risk-Weighted Assets	**35,379**	36,016

1 *Risk-weighted assets for default funds had been reported under non-counterparty credit risk in the* Annual Report and Accounts 2016 *and are now reported under the counterparty credit risk section.*

Loan Impairment Charges/Impaired Loans

	At	
	31 Dec 2017	31 Dec 2016
(in million of euros / %)	**€m**	€m
Total Gross loans	**50,234**	45,330
Total Impaired loans (B)	**971**	1,200
Impaired loans %	**1.93%**	2.65%
Total loan impairment charge at 31 December	**81**	73
Impairment allowances (A)	**(535)**	(624)
Impairment ratio: A/B	**55.10%**	52.00%

Risk

Risk overview

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

In addition to the banking risks, we have identified top and emerging risks with the potential to have a material impact on our financial results or reputation and the sustainability of our long-term business model.

During 2017, a number of changes to our top and emerging risks have been made.

Risk		Mitigants
Externally driven		
Macroeconomic risks	▼	Since the beginning of 2017, the macroeconomic environment displayed positive trends across most geographies, with growth gathering impetus in the US, resuming in South America and re-accelerating in China. In the EU, even though inflation remains below target and economies continue to be supported by the ECB's ongoing 'quantitative easing' policy, most countries are going through a period of acceleration in their GDP growth rate. France, expected to reach in 2017 its highest GDP growth rate since 2011, has yet to tackle its excessive public debt and to go back within the prescribed maximum 3 per cent public deficit, however companies bankruptcies have massively decreased across almost all sectors and are now back to levels unseen since 2008.
Technology risk	▲	We actively engage with peers and Fintechs to closely track innovation across the market, identify potential partners, and maintain a strong brand visibility. In parallel, we have launched internal projects to ensure compliance with new regulatory requirements and identify future opportunities on the market.
Risk related to prudential regulations	►	The HSBC Group and HSBC France monitor and anticipate regulatory change wherever possible and maintain a permanent and intensive dialogue with their key regulators and policymakers. The impact of regulatory evolution on capital requirements and more generally on their financial results are regularly assessed, presented and discussed by management.
Cyber threat and unauthorised access to systems	▲	We are actively participating in intelligence sharing and continue to improve our governance and controls framework to protect HSBC information and technical infrastructure against ever increasingly sophisticated cyber threats such as Payment Systems compromises and Ransomware attacks.
Tax transparency risk	►	We are continuing to implement the Tax Transparency Global Standards and to develop procedures which help identifying higher risk customers and specify requiring additional information. We are also implementing CRS to exchange information with other adopting countries.
Regulatory compliance including conduct	▲	We continue to engage with internal and external stakeholders to ensure compliance in the implementation of the ongoing projects of significance. These include the upcoming EU regulatory developments, structural changes to mitigate the consequences of Brexit, French customer protection rules and the market abuse framework.
Financial crime compliance	►	The programme Global Standards to support Anti-Money Laundering ('AML'), Sanctions and Anti-Bribery & Corruption policies, has further progressed with the implementation of additional global solutions and the embedding of processes aligned to the other entities in Group for the sake of consistency. The main milestones have been met and focus is now put on continuing the embedding of changes into our day-to-day operations as well as meeting the next milestones.
Climate change	▲	HSBC France has been assessing how its financing portfolio is aligned with the International Energy Agency's 2°C scenario, on a sector basis. It is also conducting several initiatives in order to increase awareness and integration of transition risk within the business lines, and prepare for the group process to be rolled out in H1 2018.
Legal risks	►	Please refer to Note 10 for further details.
Internally driven		
IT systems risk	▼	Pursue the Evergreening programme (priority given to Personal Internet Banking and to GBM servers migration). A governance is in place within the bank to identify and control the unauthorised accesses within the IT systems.
People risk	►	We have increased our focus on resource management (recruitment of employees or temporary workers where needed, retention); specific learning courses are implemented to adapt/upgrade skills and competencies (technical, management, soft skills) when needed; develop initiatives towards line managers in terms of managing change (i.e. digital…), reorganisations and supporting more their employees; more attention is being paid to the social climate through specific surveys.
Heightened execution, project and operational risks	►	IT – Pursued the optimisation processes and robotisation programmes, and the flagship project ITM. Operational Risk – in 2017, the Group has continued to undertake a number of initiatives to enhance risk management, to strengthen our risk culture and further embed the use of the operational risk management framework with the roll-out of Operational Risk Transformation Programme ('ORTP') and Helios deployment.
Model risk	▼	We maintain a constant recruitment effort across the modelling teams. Robustness of backtesting across all streams (credit risk, traded risk, financial crime risk and regulatory compliance) is improving. We have redeveloped and submitted to the regulators several key Credit Risk models and are on track for the TRIM visits on Traded Risk and Wholesale Credit Risk in 2018. IFRS 9 models are on track for go-live on 1 January 2018. HBFR continues to engage with the ECB and participate in consultation papers and industry working groups on regulatory topics.
Data and record management	►	Pursue the transversal governance put in place during the first quarter of 2017 (monthly Data Management Committee).

▲ Risk has heightened during 2017
► Risk remains at the same level as 31 December 2016
▼ Risk has decreased during 2017

Areas of special interest

Brexit risk – Process of UK withdrawal from the European Union

Uncertainty regarding the terms of the UK's exit agreement and its future relationship (including trading) with both the EU and the rest of the world is expected to continue for 2018 at least. Market volatility will therefore persist as the UK continues its negotiations with the EU. Throughout this period, HSBC will continually update its assessment of potential consequences for its customers, products and banking model and re-evaluate the mitigating actions accordingly.

The scale and nature of the impact on HSBC will depend on the precise terms on which HSBC and its customers will be able to conduct cross-border business following the UK's departure from the EU. Changes to the UK's current trade relationships could require changes to HSBC's banking model to ensure HSBC continues to comply with law and regulation in meeting the needs of its customers and conducting its business. Such changes could, among other things, increase HSBC's operating costs and require the Group to relocate staff and businesses.

Mitigating actions

The UK is due to formally leave the EU in March 2019. Before this can happen the UK and the EU have to finalise the Article 50 Withdrawal Agreement, so that it can be approved by their respective Parliaments. Concluding negotiations on a comprehensive trade deal within this timeframe could be challenging. A period of transition is therefore possible but the scope and length of any such arrangement would need to be agreed between the UK and the EU. Uncertainty therefore continues and with it the risk of significant market volatility. HSBC's objective in all scenarios is to continue to meet customers' needs and minimise disruption. This is likely to require adjustments to HSBC's cross-border banking model and impacted business could be transferred from the UK to other European entities of the Group principally HSBC France.

Given the tight time frame and the complexity of the negotiations, HSBC has put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU in March 2019, without access to the single market or customs union, and without a transitional arrangement. When negotiation positions and timelines become clearer, HSBC will update its contingency plan. Risks are monitored continuously, with vulnerable industry sectors reviewed by management to determine if adjustments to HSBC's risk policy or appetite are required.

Expiration of 2012 Deferred Prosecution Agreement

As part of the agreements signed between the HSBC Group, the US Department of Justice and the UK Financial Compliance Authority, an independent corporate compliance monitor was appointed to yearly assess the effectiveness and efficiency of the group's programme and framework to fight financial crime and comply with international sanctions. As at the end of 2017, the US Department of Justice has recognised that HSBC had met the obligations under the DPA and, as a result, the agreement has expired.

The monitor will however continue as HSBC's Skilled Person under a 2012 Direction issued by the UK Financial Conduct Authority for a period of time at the FCA's discretion.

The expiration of the DPA is the result of all actions undertaken by HSBC to make the bank safer and stronger, as well as the bank's customers and the integrity of the financial system. This is however not the completion of the Global Standards programme that was launched in 2012. Given the challenges inherent in combating financial crime, including the sophistication of criminal networks that seek the circumvent bank's controls, further improvements will be implemented on a continuous basis.

Our risk appetite

Throughout its history, HSBC has maintained a conservative risk profile. It is central to our business and strategy. The following principles express the group's overarching risk appetite and fundamentally drive how the business and risks are managed:

Financial position

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

Operating model

- Returns generated in line with 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.

Top and emerging risks

Macroeconomic risks

Economic growth in the Eurozone has gained traction during 2017 and in particular in France. The quantitative easing policies, established by the ECB to restore economic growth by encouraging investment and savings outside of the purely financial sphere, have contributed to the ECB interest rates remaining at zero or being negative against a backdrop of subdued inflation.

This better-oriented economic context is likely to represent a more favourable environment for the banking sector as a whole, which may support the profitability of HSBC France. However, the low level of returns on financial assets could affect in the longer term the profitability of life insurance activities, in which HSBC France is present via its subsidiary HSBC Assurances Vie.

Moreover, the relative lack of liquidity of the secondary debt market for sovereigns and corporates caused by the extremely sizeable purchases by the Eurosystem and more generally the impact of recent regulatory measures vis a vis the volumes of financial assets exchanged (e.g. through the 'Leverage Ratio' – limiting the size of banks' balance sheets in comparison with their capital – and the ban on proprietary trading except in an extremely strict framework) reduces the revenue base of investment banking activities.

This decline in revenues, be it from interest on assets (loans) or liabilities (deposits) or from fee income, increases competition between banks notably on interest rates proposed to customers, which further increases the challenges on the French banking model.

Besides, the low level of interest rates could drive certain investors into seeking higher yields by investing into higher risk assets. This could generate financial bubbles in certain sectors and ultimately expose HSBC France to higher levels of credit risk.

However, it is worth highlighting that the systemic risks in the Eurozone are now moderate. They could nevertheless be triggered by factors such as: a number of countries with excessive debt levels; Greece delaying or stopping the implementation of reforms conditioning the continued support from the EU; or the Italian banking sector, which remains exposed to non performing loans and appears vulnerable. The conditions under which the UK will exit the EU, which remain to be negotiated, add to the general uncertainty.

Mitigating actions

Faced with these challenges, HSBC France has continued with the roll-out of the initiatives started in 2016 to improve its profitability and reinforce the sustainability of its economic model.

In addition to the continuation of the extremely strict cost control it has been exercising for years, HSBC France has started to benefit from important costs savings from the IT modernisation programme launched in the beginning of 2016. This programme is expected to provide additional efficiency benefits to the Retail and CMB operations.

In parallel, the bank is seeking to increase its market share in the different client segments notably with the multinationals / large corporates and small to medium sized companies with an international dimension without relaxing its longstanding selection criteria. For the Retail banking segment, the increase in market share will be driven by the setting up of a true multi-channel bank and increased digitalisation of its services. HSBC France is also expecting to reinforce its position as first international bank in France in terms of market activities, where the international competition has largely withdrawn over the past years.

HSBC France will continue to regularly review and, where appropriate and in compliance with the principles of fair treatment of its clients, adjust the pricing of certain of its services. Furthermore and in accordance with market practices now established in France, the bank applies negative interest rates on overnight deposits to customers which have a status of bank or of financial institution, as its own excess liquidity, which is placed on a daily basis with the ECB is itself charged through a negative interest rate.

In terms of life insurance activities, HSBC France continues to apply a long term management strategy of its assets and hedging which have for effect to mitigate 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 addition to the close monitoring of the economic outlook and trends, HSBC France 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.

Lastly, in consideration of persistent imbalances in economic situations across countries in the EU and of the uncertainties generated by Brexit, HSBC France 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.

Technology risks

The banking industry is beginning to find itself confronted in some of its traditional banking products and services by the arrival of mobile banks, GAFAs and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists'…) which have superior, innovative and customer centric technologies.

These potential competitors are capable of capturing a part of the 'value chain' of the services and products offered by the banking sector by offering to their customers potentially more flexible and innovative services, greater reactivity leveraging new technologies (e.g. automated customer risk assessment using algorithms), inferior pricing, or services better adapted to an online banking world via smartphones or tablets.

The transposition into national laws and regulations of the European payment services 'PSD2' regulation scheduled for January 2018, will open up access to the bank's electronic payment platforms to two new types of entrants such as Account Information Service Provider ('AISP's') and Payment Initiation Service Provider ('PISP's'). The AISP's act as 'aggregators' of data relating to a user's accounts held across different banks whilst PISP's are able to receive and handle payment requests of clients once authorised by the clients to do so. Banks will need to find secure solutions to open access to their customers' information to third parties, while remaining central players for customer transactions. Venture Capital companies have high appetite to invest in these types of innovative companies which could become a significant competitor to the traditional banks in certain of their activities. GDPR will also trigger a change in the way bank will use customer data and will establish a new paradigm in data management.

The Payments landscape is also evolving. Single Euro Payments Area ('SEPA') Instant Payment scheme is live since November 2017, requiring banks to adapt their process and technology.

One of the major risks for traditional banks, who are less flexible than the new entrants, is the potential for a progressive loss of business, and this in an environment in which customers expect examplary service.

Mitigating actions

HSBC Group is fully aware of these technology innovations and maintains high level contacts with the 'Fintech' 'ecosystem'. The PSD2 project is well structured in France and Europe to ensure the bank will comply and is also looking at key business opportunities. GDPR is now structured and considered as a key project for the Group. Open Banking projects in the UK can also be leveraged in France. The bank is looking into strategic Fintech partnerships to ensure that value is appropriately captured for each of HSBC France's businesses. HOST is also looking at strategic solutions and technologies to accelerate readiness.

As an example, the bank already offers its clients the ability to consult their accounts at other banks via a contract entered by HSBC France with an AISP. HSBC France also has ambitious programmes to progressively 'digitalise' its products, such as its partnership with Linxo or its IT modernisation project for instance. In addition to that, several projects at Group, Region, and France level are implemented to ensure compliance with new regulatory requirements, adapt HSBC's payment strategy in a post-PSD2 environment, and identify related growth opportunities.

Risks related to prudential regulations

Prudential regulations will continue to become more stringent during 2019, in particular with the possible approval of the CRR2 package, which aims at deepening the banking union within the Eurozone. This new regulation will probably, inter alia, set up a maximal leverage ratio for banks, as well as a net stable finding ratio for large banks such as HSBC France and strengthened bail-in requirements. At the national level, it is also possible that the High Council for Financial Stability introduces a new countercyclical capital buffer if the macroeconomic environmental and the dynamics of credit remain unchanged.

Over the medium term, the European prudential legislation will continue to evolve in order to implement the international agreement reached in December 2017 within the Basel committee. To be applied from 2022 the latter in particular further curtails the use of internal models for the calculation of capital requirements and also sets a lower leverage limit for large financial institutions such as HSBC France. The future parameters in order to assess market risk within the trading book Fundamental review of the trading book, ('FRTB') are still under negotiation.

Mitigating actions

HSBC France is carefully watching this evolving regulatory environment and maintains an open and regular dialogue with its various regulators. In addition, the Bank responds to regulatory consultations with the other French banks and participates in the ongoing industry working groups on key regulatory changes.

Besides, HSBC France tries to anticipate as much as possible the possible impact of regulatory evolution on its capital requirements and more generally its financial standing. These impacts are regularly assessed, presented and discussed by management. They are also taken into account in the design of HSBC France's capital and liquidity policies and, whenever relevant, in HSBC's commercial policy, whenever the anticipated regulatory changes are sufficiently certain.

Cyber threats and unauthorised access to systems

HSBC and other public and private organisations continue to be the targets of increasing and more sophisticated cyber attacks that may disrupt customer services.

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.

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.

Tax Transparency Risks

In common with all companies, HSBC France 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 France 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 France 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 (the UK Criminal Corporate Offence enacted in 2017 will lead to additional compliance in this respect).

Mitigating actions

HSBC France 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.

Regulatory Compliance including Conduct

Following a number of conduct-related incidents and subsequent financial penalties in the industry, there is an increased focus by regulators on Conduct matters, including issues relating to treating customers fairly and imposing good practices. The same level of regulatory scrutiny also applies for investment firms' market abuse framework.

The regulatory change environment also continues to be challenging in 2017, with significant EU projects, giving rise to increased execution risk. The timeline for the implementation reduces as legislators tend to publish regulatory texts closer to the entry into application.

Following the UK's decision to withdraw from the EU, HSBC adjusted its European strategy to ensure the smoothest transition for our customers. Compliance with regulatory standards must be ensured in every step, both towards our internal and external stakeholders (including HSBC's regulators).

Mitigating actions

In line with Group initiatives, and the Global Conduct Policy, HSBC France has implemented the Conduct framework: the Conduct risk is now managed in all Lines of Business as any other risk. Work on the enhancement of market abuse detection tools is also ongoing.

Regulatory Compliance provides oversight of the implementation actions, with a focus on employee training, to address any item for attention or possible delay in the application of the regulatory requirements.

We engage with internal and external stakeholders, including our Regulators, as part of our role as Risk Stewards in achieving HSBC's strategic priorities.

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 or to transfer money to sanctioned countries or individuals. The risk of financial crime remains a top risk for HSBC which continuously reinforce their framework to detect and defer all 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 and Anti-Bribery and Corruption ('AB&C'), 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 the top management to each single 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 the law Sapin 2 and the AFA.

Climate change

The industrialisation of the world is leading to an increase in CO_2 concentration in the atmosphere, which is contributing to an increase in the temperature of the atmosphere and the oceans. To limit the impact of this global warming, it has been agreed at the UN Cop 21 to reduce CO_2 gas emissions from 47GT CO_2 to GT40 by 2030 a level commensurate with a maximum (2 Celsius degree) increase in temperature compared to pre-industrial levels (limit set by the UN as being the tipping point beyond which the consequences of climate change are deemed to be irreversible).

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 CO_2 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 will be measured and monitored by the client facing teams and the credit teams, and exposure to Transition Risk will be reported to the RMM including regular review of sensitive sectors/clients.

This process will help to align the Group's portfolio to a de-carbonation scenario.

Legal risks

Besides compliance risk with existing regulation and laws, HSBC France is exposed, like any institution, to third-party litigation risks, whatever they may be. Such risks may have financial implications, in the form of fines and penalties, as well as reputational risk. French and EU legislations have recently evolved in many critical areas, such as:

- Pursuant to the 'Sapin II' legislation, administrative penalties and fines that can be levied for violation of the new conditions against late payment, have been significantly increased.
- New EU regulation governing data protection published 4 May 2016 introduced significant changes with respect to the previous piece of regulation, including, the so called 'right to be forgotten', encouraging data portability and restricting profiling.
- The UK Criminal Finance Act 2017, which entered into force on 30 September 2017, has extraterritorial effects, and criminally sanctions the failure to prevent the criminal facilitation of tax evasion (both UK and non-UK taxes).

Mitigating actions

A legal and information monitoring system is available to HSBC France's top management to prevent risks arising from legislative and regulatory reforms. In addition to the monitoring system, regulatory and legislative texts are analysed, with the assistance of external counsels if necessary, and examined by or with the relevant Business lines and Functions, to determine the practical consequences and appropriate adaptations for full compliance.

Such principles have been implemented for the bills mentioned above as well as for other legislative reforms that were expected or that have occurred during 2017.

IT systems risks

Apart from malicious activities, the bank's IT systems are also exposed to malfunction or breakdown risk or unauthorised access to applications or IT servers, which would affect HSBC France's clients, operations or its ability to comply with regulatory obligations. Such risks could seriously affect the image and the reputation of the bank and lead to significant operational losses due to the costs of returning the systems to normal conditions, to potential remuneration for the prejudice caused and to possible penalties and fines.

Mitigating actions

To guard against such risks, HSBC France is constantly conducting comprehensive maintenance work on its IT systems and software updates. In this context, the Bank 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. Finally, it must be stressed that HSBC France is implementing a major programme of IT systems upgrade, which is leading to the complete overhaul and replacement of its current banking IT infrastructure, a legacy from HSBC Group which has become too complex following numerous updates. The new system is being developed by a third-party undertaking and is already in operations in other French banks. In order to limit unauthorised access within the IT systems, a review and control of high privileged accounts is in place. Overall, the bank has reinforced its IT systems access rights control framework which should be rolled out to all the bank's key systems.

People risks

The various transformation programmes in progress at HSBC France impact a significant proportion of the bank's staff, together with the voluntary redundancy programme which ended in September 2017 and the transformation programme announced in September 2017 for RBWM could create an environment that certain staff may feel as complex and uncertain. This situation could potentially lead to a decrease in staff engagement, increased sick leave and unwanted staff turnover. In addition the current transformation and increasing complexity of the bank industry, make the skills and competencies evolving in all Businesses and Functions. Staff has to adapt themselves and to develop new competencies, which could create a feeling of unsuitability for some of them.

Mitigating actions

In order to mitigate the above risks, HSBC France is making regular and clear communications to all staff concerning the re-organisations and projects in progress. The bank also monitors with attention the workload and stress levels of its employees via bi-annual surveys and adapted questionnaires for its executives *('Cadres à forfait jours')*. Line managers are equally made aware of this risk regularly and are encouraged to take appropriate action when the satisfaction index demonstrates a deterioration in the working conditions or a perception of this by employees. In addition, HSBC France has deployed specific learning courses (technical, management, soft skills) for staff to develop new competencies and adapt themselves.

Execution, Project and Operational risks

The different projects and transformation programmes in progress at HSBC France 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.

HSBC France provides the necessary means to manage its various projects be they technical, financial or human. These are subject to regular monitoring as part of the governance framework adapted to the nature and complexity of the projects. The planning takes into account the possible interactions with the other change programmes. Finally, the most important projects are followed at the highest possible governance forums.

Mitigating actions

- Closely monitor the schedule of the most critical projects and/or initiatives that will contribute to staff reduction, to ensure they will be delivered on time, and synchronised with the departures and/or process automation.
- To strengthen the governance related to project an Oversight Project committee has been designed and will be launched in the first trimester of 2018.

Model risks

Within regulatory risks, model risk, a risk linked to the model calculation of risk-weighted assets ('RWA'), constitutes a specific issue. First and foremost, regulatory requirements linked to developing, validating and monitoring RWA models including compliance issues, have substantially increased and require a significant amount of upgrading with respect to data quality and statistical work. Secondly, in the Euro zone, the ECB launched in 2016 a comprehensive programme to review, assess and, as far as possible, harmonise both RWA models and theoretical approaches and practical implantation for all banks under its direct supervision. This programme, called Targeted Review of Internal Models ('TRIM'), may not conclude before 2019. Until then, it is possible that many uncertainties will remain with respect to HSBC France's capacity to keep some of its internal models over the long run or to have required or even necessary model upgrades validated by the regulator. HSBC France is also subject to the supervision of the UK regulator, the Prudential Regulation Authority ('PRA') and the validation of its models requires coordination, untested as yet, between the PRA, the ACPR and the ECB, which certainly contributes to further uncertainty.

Secondly, the Basel Committee of Banking Supervision finally approved in December 2017 a package of reforms, applicable gradually from 2022, which will limit the possible benefits of internal models in terms of regulatory capital requirements. These reforms concern inter alia the use of internal models for credit risk as well as the establishment of a global capital floor calculated using the regulatory requirements resulting from the use of the standardised approach. The different modifications, which still need to be transposed into European law, could lead to a significant increase in the risk weighted assets (RWAs) of HSBC France.

Taken together, against the backdrop of a volatile environment (Brexit, new EBA definition of default), all these developments present for the bank a serious risk of an increase in capital requirements, either because its advanced internal models may be invalidated in the end and the bank may be forced to return to 'foundation' models or even to the 'standard' method, or because the bank may have to include a vast array of additional prudence adjustments, or adopt capital floors in its existing models. Alternatively, capital requirements may also increase for the bank following a change in regulatory RWA calculation incumbent on all EU regulated banks.

Mitigating actions

To cope with these new constraints and to comply with the new regulatory requirements, HSBC France is improving its internal models and adjusting its corporate governance. To do so, the bank is calling on specialist teams within HSBC Bank plc whenever necessary. The internal validation of models, contingent upon submission to the regulators, is carried out by an independent and dedicated team from HSBC Group and meets extremely strict standards, which are common to the rest of the Group.

Besides, HSBC France is actively cooperating with the PRA and the ECB on prioritisation of model submissions and is sharing the submission stocktake regularly. A new policy covering model notification requirements has been drafted to ensure alignment with regulatory requirements. Finally, resources are being sought to address additional regulatory requests (e.g. gap analysis and action plan in relation to new EBA definition of default).

Data and record management risks

HSBC France must ensure that it collects, manages and stores data in a consistent and reliable way, for its own use and for the use of regulators, who require increasingly frequent and detailed financial disclosures. In the absence of reliable data management, the data on which it bases its management decisions and responses to its customers' needs may be inaccurate, its financial disclosures may be doubted and its capacity to fulfil its regulatory reporting obligations may make it liable to fines or penalties.

Data maintenance, either in physical or electronic format, and the bank's capacity to index and retrieve it, are equally important in some instances, such as in the case of litigation, enquiry or control. Should the bank's data maintenance systems fail, the bank would be liable to penalties and other financial losses.

HSBC France constantly promotes the development of better data management systems, which forms part of HSBC Group's global data quality improvement programme. HSBC France is looking to streamline data collection, to organise data storage and to rationalise and optimise data flows and data retrieval in IT systems. That will help reduce errors and the need to carry out consistency controls and other manual adjustments.

In addition, the bank has put in place an improvement programme for physical as well as electronic archives. This is being monitored by the bank's Chief Operating officer via a quarterly committee.

Mitigating actions

A Record Management Committee for physical as well as for electronic archives, is held on a quarterly basis, chaired by the the bank's Chief Operating Officer ('COO').

On the same basis, a monthly Data Committee has been put in place in 2017, co-chaired by the COO, the Chief Financial Officer ('CFO'), and the Chief Risk Officer ('CRO').

lastly, General Data Protection Regulation ('GDPR') project governance is in place at HSBC, both at country and European levels.

Key developments and risk profile

Key developments in 2017

In 2017, the HSBC France undertook a number of initiatives to enhance our approach to the management of risk. These included:

- Implementing a new HSBC Group risk management framework Operational Risk Management Framework ('ORMF') and system of recording and monitoring of risk, as described on page 99 of the Operational risk section; and
- The rollout of compliance systems and additional scenarios aiming to detect new risk situations in the areas of Fraud risk, non compliance with international sanctions and financial crime. HSBC France committed in 2017 to reinforce and sustain its global framework in these three areas by regrouping the Financial Crime Compliance (anti money laundering, corruption and compliance with international sanctions) and Fraud Risk departments into Financial Crime Risk ('FCR'). These risks are now monitored together in a new specific committee Financial Crime Risk Management Meeting ('FCRMC') which is distinct from the HSBC France Risk Management Meeting ('RMM'). Further details can be found on page 108. It should be noted that HSBC has met its obligations under the 2012 Deferred Prosecution Agreement ('DPA') and the agreement passed the same year with the US Department of Justice and accordingly the DPA has therefore expired.
- HSBC France enhanced its regulatory compliance risk management and control framework by significantly refining its risk mapping and by setting a global procedure framework based on the HSBC Group model as described on page 105.

Risk Management

As a provider of banking and financial services, the HSBC Group considers the management of risk a top priority. Risks are to be assumed in a measured manner in line with the risk appetite defined locally. HSBC France continues to maintain a very strong liquidity position and is well positioned for the changing regulatory landscape.

Managing Risk

All HSBC France's activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risks or combinations of risks.

Risk management framework

A strong governance framework with clearly defined ownership and responsibilities ensures an effective management of risk. The HSBC France risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. Integral to the risk management framework are risk appetite, stress testing, risk map and the identification of top and emerging risks.

The HSBC France risk management framework is designed to provide appropriate risk monitoring and assessment. The Risk Committee is composed of independent members of the Board and has responsibility for oversight and advice to the Board on, inter alia, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance. The Risk Committee maintains and develops a supportive culture in relation to the management of risk, appropriately embedded by executive management through procedures, training and leadership actions.

In compliance with the requirements of the French order of 3 November 2014 and the demands of the HSBC Group, the HSBC France group has established a permanent control and risk management system as set out in this document on the internal control procedures and risk management procedure.

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 and the Head of FCC and RC Compliance, together with other business functions on risks within their respective areas of responsibility.

Risk Governance

HSBC France Risk Management Meeting ('RMM'), is the main committee of risk management, next to the committee in charge of overseeing more specifically the Financial Crime Risk and Sanctions Risk: the Financial Crime Risk Management Committee. Roles and responsibilities of the RMM is detailed on page 100.

The control framework

The Chief Risk Officer is responsible for the permanent control within the HSBC France Risk function.

The key responsibility for control falls to the managers of the various businesses, functions and HOST who must ensure that primary controls are conducted in a proper manner and covered by a second-level independent controls process. They are supported by Business Risk and Control Management ('BRCM') teams whose role is detailed on page 102 of the report. Since 2012, HSBC adopted a risk management and internal control framework called the Three Lines of Defence as described below.

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 France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of different types of risks.

In compliance with the requirements of the French order of 3 November 2014 and the demands of the HSBC Group, the HSBC France Group has established a permanent control and risk management framework.

Tools

In compliance with the French order of 3 November 2014 related to bank permanent control, each entity has set up a framework to cover all risks: inherent and residual risks are listed in the businesses risk maps specific to each business (Commercial Banking, Global Banking and Markets, Retail Banking and Wealth Management and Private Banking). These maps summarise the assessment of risk by activity and the related controls on a risk-base approach.

This organisation is supported by a permanent control framework for the central coordination of Basel II credit models, related to data quality and the follow up of these models design.

The updating 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. A full review is performed at least annually. These ongoing changes as well as the annual review are validated by the head of permanent control, the first and second lines stakeholders.

Three lines of defence

We use an activity-based three lines of defence model to delineate management accountabilities and responsibilities for risk management. This creates a robust control environment in which to manage inherent residual risks.

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.
- 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.

Risk culture

All employees are required to identify, assess and manage risk within the scope of their assigned responsibilities. Global Standards set the tone from the top and are central to the group's approach to balancing risk and reward. The aim is to implement common Financial Crime Compliance ('FCC') standards within HSBC, based on the strictest worldwide standards, and to follow the consistent implementation across the Group. A dedicated FCC Culture Improvement programme and 2017 has participated in improving awareness across the bank and the effectiveness of the framework to fight financial crime related risks.

HSBC France continued to implement the 'Conduct' programme which sets forth the commitments made by HSBC with respect to the fair and just treatment of customers and the financial market integrity. Personal accountability is reinforced by the HSBC Values, with employees expected to act with courageous integrity in conducting their duties.

Employees are supported by a disclosure line (HSBC Confidential) which enables them to raise concerns in a confidential manner (which is outside of the normal management reporting lines). HSBC France also has in place a suite of mandatory training to promote these values.

In 2017, HSBC implemented its 'charter' to complement the local Codes of Conduct to offer a common approach that brings HSBC purpose and values to life in the decision-making process.

Performance management is measured against objectives which are fixed at the start of the year by the manager for each employee. These objectives integrate qualitative targets (respect of compliance and internal control procedures, adherence to Global Standards, quality of sales or service, management of risk notably in terms of operational risk, closure of audit points, client recommendations, intra Global Business synergies, client acquisition etc.) and either collective or individual financial criteria (increase in revenues, control of costs, increase in profit before tax etc.).

The performance indicators, which underpin these objectives, are a function of the job held, the level of responsibility and are analysed in comparison with the previous year or versus the current annual plan.

The objectives, as a whole, are established at the start of the year in the annual scorecards of the employees.

Risk profile

Risks assumed by HSBC France are monitored in compliance with the local risk appetite. Risks are identified through the risk map process which sets out the HSBC France's risk profile in relation to key risk categories. Risks are regularly assessed through the risk appetite framework, the risk map and the regular review of top and emerging risks by senior management.

Credit, market and operational risk are measured using the Basel 2 Pillar 1 framework for regulatory capital through the allocation of risk-weighted assets.

Other risks are also measured through the group's economic capital model under Pillar 2.

Risk appetite

HSBC France's risk appetite is set out in the Risk Appetite Statement, which describes the types and levels of risk that HSBC France is prepared to accept in executing its strategy. The HSBC France's Risk Appetite Statement covers the following 18 key areas of risk, with detailed measures for each category: Financial Crime Compliance, Regulatory Compliance, Operational Risk, Reputational Risk, System Infrastructure, Asset Management, Insurance, People Risk, Security Risk, Cost of Risk, Risk Diversification, Market Risk, RWAs by Risk Category and by Global Business, Capital, 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 France 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.

Stress testing

HSBC France's stress testing programme is central to the monitoring of top and emerging risks, and to the assessment of capital adequacy through the estimation of the capital requirement to absorb resulting shocks. This is achieved by the undertaking of internal as well as regulatory driven stress test exercises during the year.

The stress testing programme includes macroeconomic stress tests, which seek to assess HSBC France's resilience to exceptional but plausible severe scenarios, as well as 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 France Risk Committee and Board.

In 2017, HSBC France completed a stress test programme, including the completion of the 2017 PRA concurrent stress test. These included scenarios specific to France with macroeconomic shocks including a significant deterioration in certain sectors or activities or scenarios which also sought to identify the risk of concentration in the credit portfolios. These were reported to the senior management and to the other governance committees of the bank.

HSBC France also contributed to the HSBC Group stress testing programme, including Reverse Stress Testing. 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.

Scenarios specific to France may also be developed by HSBC France's risk and finance teams, with the support of expert panels.

Regulatory stress tests

Stress testing is an important tool for regulators 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.

HSBC France, HSBC Bank plc and HSBC Group took part in the 2017 PRA concurrent stress test programme, involving all major UK banks. The scenarios for the 2017 stress test incorporate on one hand a synchronised global downturn, with a substantial fall in oil price, a significant rise in unemployment rates, a contraction in private consumption, a general fall in property prices, and on the other hand a long-lasting low interest rate environment, impacting global trade, notably the emerging countries. 2017 PRA Stress Test results for the Group were published by the Bank of England in the fourth quarter of 2017, confirming the absence of capital inadequacy.

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 (see pages 73 to 87)		
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 (see pages 88 to 91)		
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 (see pages 91 to 99)		
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').
Operational risk (see pages 99 to 105)		
The operational risk is defined as 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: • **Assessed** using the risk prioritisation matrix, which allows to determine the level of risk and the effectiveness of related 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 (see pages 105 to 109)		
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 (see page 67)		
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/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. A dedicated programme, called Global Standards, has been set up to define the plan to continuously improve the FCC framework and ensure it is operationally effective.

Other material risks

Risks	Arising from	Measurement, monitoring and management of risk
Reputational risk (see page 121)		
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 France.	Primary reputational risks arise directly from an action or inaction by HSBC France, 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 (see pages 116 to 121)		
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 European Chief Risk Officer who reports to the Chief Executive Officer, with a functional reporting line to the Group Chief Risk Officer. Its responsibilities include:

- formulating the local credit policy aligned where possible with group policies;
- validating HSBC France'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 France;
- 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 France'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 France's capital base, and remain within internal and regulatory limits;
- maintaining and developing HSBC France'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 France's Risk Committee and the Board; and
- acting on behalf of HSBC France 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 France 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 France 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;
- 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;
- 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 France consolidated capital.

It should be noted that all commitments, as defined above, which exceed 10 per cent of the HSBC France 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 France's consolidated capital.

A quarterly report on all single counterparty or groups of connected counterparties for which the HSBC France 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 France and to the various Risk committees in HSBC bank plc.

As at 31 December 2017, for HSBC France, 12 groups individually exceeded 10 per cent of the net capital (31 December 2016: 15 groups).

Sectorial concentration risk

It is an HSBC France 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 France'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 France 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. For example, the exposure of HSBC France to the 'Oil and Gas' sector, which totals EUR 1.3 billion of outstandings as at 31 December 2017, is primarily to the production and distribution companies is subject to a specific review.

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 Categories A and B limits) are not permitted to exceed 25 per cent of HSBC France'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 cross-border risk exposure (total of limits to categories A and B) in excess of 10 per cent of HSBC France's capital is given to Senior Management, the Risk Committee and the Board of Directors of HSBC France.

Concerning 2017 and in accordance with its credit guidelines, HSBC France's exposures to countries other than France was limited. Only three countries had commitments (category A and B) in excess of EUR 2 billion: Germany, the United Kingdom and Luxembourg.

The exposures for Germany and Luxembourg were principally comprised of 0 per cent weighted counterparties (articles 115 to 118 of the CRR). Regarding the exposure to the United Kingdom, the essential is due for half by exposure to the central clearing exchanges due to HSBC France being the European platform for HSBC Group for derivatives activities whilst the other half comprises of exposure to other HSBC Group entities.

Brexit risk – Process of UK withdrawal from the European Union is covered in Areas of Special Interest (see page 64). Given the tight time frame and the complexity of the negotiations, HSBC has put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU in March 2019, without access to the single market or customs union, and without a transitional arrangement. When negotiation positions and timelines become clearer, HSBC will update its contingency plan. Risks are monitored continuously, with vulnerable industry sectors reviewed by management to determine if adjustments to HSBC's risk policy or appetite are required.

The exposure to other countries, notably China or Turkey are not significant for HSBC France.

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 borrowers financial obligations;
- a guarantee (surety) 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 85 million at 31 December 2017 and subject to eligibility, they have for effect of decreasing the risk-weighted assets of the bank.

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 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 2017		
	Maximum exposure[2]	Offset[1]	Net exposure to credit risk
	€m	€m	€m
Cash and balances at central banks	14,630	–	14,630
Items in the course of collection from other banks	435	–	435
Trading assets	22,401	–	22,401
– treasury and other eligible bills	641	–	641
– debt securities	15,784	–	15,784
– loans and advances	5,976	–	5,976
– to banks	3,948	–	3,948
– to customers	2,028	–	2,028
Financial assets designated at fair value	1,084	–	1,084
– treasury and other eligible bills	–	–	–
– debt securities	1,081	–	1,081
– loans and advances	3	–	3
Derivatives	34,407	(33,094)	1,313
Loans and advances held at amortised cost	49,699	–	49,699
– loans and advances to banks	4,843	–	4,843
– loans and advances to customers	44,856	–	44,856
– personal	16,234	–	16,234
– corporate and commercial	26,914	–	26,914
– financial (non-bank financial institutions)	1,708	–	1,708
Reverse repurchase agreements – non-trading	13,781	(3,030)	10,751
Financial investments[3]	20,331	–	20,331
– treasury and other eligible bills	–	–	–
– debt securities	20,331	–	20,331
Other assets	1,004	–	1,004
– endorsements and acceptance	–	–	–
– accrued income and other	1,004	–	1,004
Off-balance sheet	30,025	–	30,025
– financial guarantees and other credit-related guarantees	3,702	–	3,702
– loan commitments and other credit-related commitments	26,323	–	26,323
Total	187,797	(36,124)	151,673

1 *The loans and advances offset adjustment primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default but where all IAS32 requirements are not met; and as a result there is a net exposure for credit risk management purposes .*
2 *The outstandings are presented after offsetting ; when legally enforceable right of offset in the event of counterparty default is not compliant with IAS32 requirements (refer to the Note 26 of the consolidated financial statements).*
3 *Reported amounts exclude equity instruments.*

Maximum exposure to Credit Risk (continued)

	31 Dec 2016		
	Maximum exposure[2]	Offset[1]	Net exposure to credit risk
	€m	€m	€m
Cash and balances at central banks	4,714	–	4,714
Items in the course of collection from other banks	437	–	437
Trading assets	23,589	–	23,589
– treasury and other eligible bills	393	–	393
– debt securities	15,610	–	15,610
– loans and advances	7,586	–	7,586
– to banks	4,658	–	4,658
– to customers	2,928	–	2,928
Financial assets designated at fair value	1 033	–	1 033
– treasury and other eligible bills	–	–	–
– debt securities	1 028	–	1 028
– loans and advances to banks	5	–	5
Derivatives	47,367	(44,014)	3,353
Loans and advances held at amortised cost	44,706	–	44,706
– loans and advances to banks	3,379	–	3,379
– loans and advances to customers	41,327	–	41,327
– personal	15,536	–	15,536
– corporate and commercial	24,247	–	24,247
– financial (non-bank financial institutions)	1,544	–	1,544
Reverse repurchase agreements – non-trading	11,862	(2,341)	9,521
Financial investments[3]	26,185	–	26,185
– treasury and other eligible bills	–	–	–
– debt securities	26,185	–	26,185
Other assets	985	–	985
– endorsements and acceptance	–	–	–
– accrued income and other	985	–	985
Off-balance sheet	28,459	–	28,459
– financial guarantees and other credit-related guarantees	3,040	–	3,040
– loan commitments and other credit-related commitments	25,419	–	25,419
Total	189,337	(46,355)	142,982

1 *The loans and advances offset adjustment primarily relates to customer loans and deposits, and balances arising from repo and reverse repo transactions. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default but where all IAS32 requirements are not met; and as a result there is a net exposure for credit risk management purposes.*
2 *The derivative offset amount in the 'maximum exposure to credit risk table' relates to exposures where the counterparty has an offsetting derivative exposure with the group, a master netting agreement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash.*
3 *Reported amounts exclude equity instruments.*

Loans and Advances

The following tables analyses loans and advances by industry sector:

Loans and advances to customers by client segment

	31 Dec 2017		31 Dec 2016	
	Gross loans and advances to customers	**Gross loans by industry sector as a % of total gross loans**	Gross loans and advances to customers	Gross loans by industry sector as a % of total gross loans
	€m	**%**	€m	%
Personal	**16,316**	**35.95**	15,621	37.23
– residential mortgages	**2,427**	**5.35**	2,539	6.05
– garantees loans by Crédit Logement	**11,022**	**24.28**	10,108	24.10
– other personal	**2,867**	**6.32**	2,974	7.08
Corporate and commercial	**27,366**	**60.29**	24,767	59.04
– commercial, industrial and international trade	**14,263**	**31.42**	13,334	31.78
– commercial real estate (including private real estate companies)	**4,762**	**10.49**	4,384	10.45
– other property-related	**456**	**1.00**	570	1.36
– government	**1,642**	**3.62**	1,598	3.81
– other commercial	**6,243**	**13.75**	4,881	11.62
Financial	**1,708**	**3.76**	1,565	3.73
– non-bank financial institutions	**1,708**	**3.76**	1,565	3.73
– settlement accounts	**–**	**–**	–	–
Total gross loans and advances to customers	**45,390**	**100.00**	41,953	100.00
Impaired loans as a percentage of total	**970**	**2.14**	1,200	2.86

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.

Quality classification

	Debt securities and other bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	Internal credit rating	Probability of default %	Internal credit rating	Expected loss %
Quality classification					
Strong	**A- and above**	**CRR1 to CRR2**	**0 – 0.169**	**EL1 to EL2**	**0 – 0.999**
Good	**BBB+ to BBB-**	**CRR3**	**0.170 – 0.740**	**EL3**	**1.000 – 4.999**
Satisfactory	**BB+ to B and unrated**	**CRR4 to CRR5**	**0.741 – 4.914**	**EL4 to EL5**	**5.000 – 19.999**
Sub–standard	**B- and below**	**CRR6 to CRR8**	**4.915 – 99.999**	**EL6 to EL8**	**20.000 – 99.999**
Impaired	**Impaired**	**CRR9 to CRR10**	**100**	**EL9 to EL10**	**100+ or defaulted**[1]

1 *The EL percentage is derived through a combination of Probability of Default ('PD') and Loss Given Default ('LGD') and may exceed 100 per cent in circumstances where the LGD is above 100 per cent reflecting the cost of recoveries.*

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. Retail accounts operate within applicable product parameters and only exceptionally show any period of delinquency.
- 'Good': exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.
- 'Satisfactory': exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.
- 'Sub-standard': exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments showing longer delinquency periods of generally up to 90 days; past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.
- 'Impaired': exposures have been assessed, individually or collectively, as impaired.

Risk rating scales

All distinct HSBC customers are rated using the PD scale, except for those still under the Standard Basel II method.

Each 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.

For the purpose of the following disclosure, retail loans which are past due up to 90 days are not disclosed within the EL grade to which they relate, but are separately classified as past due but not impaired. The following tables set out the Group's distribution of financial instruments by measures of credit quality.

Distribution of financial instruments by credit quality

	At 31 Dec 2017							
	Neither past due nor impaired							
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Impairment allowances	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances at central banks	14,630	–	–	–	–	–	–	14,630
Items in the course of collection from other banks	435	–	–	–	–	–	–	435
Trading assets	18,267	1,200	2,934	–	–	–	–	22,401
– treasury and other eligible bills	356	284	1	–	–	–	–	641
– debt securities	14,388	209	1,187	–	–	–	–	15,784
– loans and advances to banks	1,522	696	1,730	–	–	–	–	3,948
– loans and advances to customers	2,001	11	16	–	–	–	–	2,028
Financial assets designated at fair value	996	81	7	–	–	–	–	1,084
– treasury and other eligible bills	–	–	–	–	–	–	–	–
– debt securities	996	81	4	–	–	–	–	1,081
– loans and advances to banks	–	–	3	–	–	–	–	3
Derivatives	32,202	2,022	166	17	–	–	–	34,407
Loans and advances held at amortised	31,427	9,862	7,316	507	151	971	(535)	49,699
Loans and advances to banks	4,047	240	555	1	–	1	(1)	4,843
Loans and advances to customers	27,380	9,622	6,761	506	151	970	(534)	44,856
– personal	15,519	343	54	1	97	302	(82)	16,234
– corporate and commercial	11,357	8,487	6,301	499	54	668	(452)	26,914
– financials (non-bank financial institutions)	504	792	406	6	–	–	–	1,708
Reverse repurchase agreements – non-trading	10,332	1,858	1,591	–	–	–	–	13,781
Financial investments	17,775	1,712	844	–	–	–	–	20,331
– treasury and other eligible bills	–	–	–	–	–	–	–	–
– debt securities	17,775	1,712	844	–	–	–	–	20,331
Other assets	–	–	1,003	–	–	1	–	1,004
– endorsements and acceptances	–	–	–	–	–	–	–	–
– accrued income and other	–	–	1,003	–	–	1	–	1,004
Total	126,064	16,735	13,861	524	151	972	(535)	157,772
Off Balance sheet	14,197	9,956	5,324	439	–	113	(4)	30,025
Financial guarantees and similar contracts	1,594	1,277	558	250	–	23	–	3,702
Loan and other credit-related commitments – endorsements and acceptances	12,603	8,679	4,766	189	–	90	(4)	26,323
Total	140,261	26,691	19,185	963	151	1,085	(539)	187,797

Distribution of financial instruments by credit quality (continued)

	At 31 Dec 2016							
	Neither past due nor Impaired							
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Impairment allowances	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances at central banks	4,714	–	–	–	–	–	–	4,714
Items in the course of collection from other banks	437	–	–	–	–	–	–	437
Trading assets	17,232	4,084	2,256	17	–	–	–	23,589
– treasury and other eligible bills	62	328	3	–	–	–	–	393
– debt securities	12,923	2,343	344	–	–	–	–	15,610
– loans and advances to banks	1,669	1,359	1,613	17	–	–	–	4,658
– loans and advances to customers	2,578	54	296	–	–	–	–	2,928
Financial assets designated at fair value	930	84	19	–	–	–	–	1,033
– treasury and other eligible bills	–	–	–	–	–	–	–	–
– debt securities	930	84	14	–	–	–	–	1,028
– loans and advances to banks	–	–	5	–	–	–	–	5
Derivatives	43,163	3,684	499	21	–	–	–	47,367
Loans and advances held at amortised cost	27,704	9,298	6,205	700	223	1,200	(624)	44,706
Loans and advances to banks	2,470	478	429	2	–	–	–	3,379
Loans and advances to customers	25,234	8,820	5,776	698	223	1,200	(624)	41,327
– **personal**	14,501	534	122	–	156	308	(85)	15,536
– **corporate and commercial**	10,151	7,512	5,475	690	67	872	(520)	24,247
– **financials (non-bank financial**	582	774	179	8	–	20	(19)	1,544
Reverse repurchase agreements – non-trading	7,779	1,922	2,161	–	–	–	–	11,862
Financial investments	23,258	2,209	1,037	–	–	1	(1)	26,504
– treasury and other eligible bills	–	–	–	–	–	–	–	–
– debt securities	23,258	2,209	1,037	–	–	1	(1)	26,504
Other assets	–	–	985	–	–	–	–	985
– endorsements and acceptances	–	–	–	–	–	–	–	–
– accrued income and other	–	–	985	–	–	–	–	985
Total	125,217	21,281	13,162	738	223	1,201	(625)	161,197
Off Balance sheet	15,324	7,929	4,573	582	–	45	6	28,459
Financial guarantees and similar contracts	1,091	1,155	477	286	–	30	1	3,040
Loan and other credit-related commitments – endorsements and acceptances	14,233	6,774	4,096	296	–	15	5	25,419
Total	140,541	29,210	17,735	1,320	223	1,246	(619)	189,656

Past due but not impaired gross financial instruments

Past due but not impaired are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Ageing analysis of past due but not impaired gross financial instruments

	Up to 29 days	30-59 days	60-89 days	90-179 days	Over 180 days	Total
	€m	€m	€m	€m	€m	€m
At 31 December 2017						
Loans and advances to customers held at amortised cost	**111**	**28**	**12**	**–**	**–**	**151**
– personal	**69**	**20**	**8**	**–**	**–**	**97**
– corporate and commercial	**42**	**8**	**4**	**–**	**–**	**54**
– financial (non-bank financial institutions)	**–**	**–**	**–**	**–**	**–**	**–**
Other assets	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2016						
Loans and advances to customers held at amortised cost	146	56	21	–	–	223
– personal	99	39	18	–	–	156
– corporate and commercial	47	17	3	–	–	67
– financial (non-bank financial institutions)	–	–	–	–	–	–
Other assets	–	–	–	–	–	–

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.

Two types of impairment allowance are in place: individually assessed and collectively assessed.

Impaired loans – identification of loss events

The criteria used by HSBC France 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 (more than 180 days for property loans and for loans to local government bodies);
- 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 and available-for-sale financial assets

For details of HSBC France's policy concerning impairments of loans and advances, please refer to note 1.2 in the Consolidated Financial Statements.

Impaired loans and advances to customers and banks by client segment

	31 Dec 2017		
	Individually assessed	**Collectively assessed**	**Total**
	€m	**€m**	**€m**
Banks	**1**	**–**	**1**
Customers	**970**	**–**	**970**
– personal	**302**	**–**	**302**
– corporate and commercial	**668**	**–**	**668**
– financial	**–**	**–**	**–**
At 31 December	**971**	**–**	**971**

	31 Dec 2016		
	Individually assessed	Collectively assessed	Total
	€m	€m	€m
Banks	–	–	–
Customers	1,200	–	1,200
– personal	308	–	308
– corporate and commercial	872	–	872
– financial	20	–	20
At 31 December	1,200	–	1,200

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 France'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 his 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, such as that undertaken by HSBC Finance, the minimum repayment performance period required may be substantially more.

Payment performance periods are monitored to ensure they remain appropriate to the levels of recidivism observed within the portfolio. These performance periods are in addition to a minimum of two payments which must be received within a 60-day period for the customer to initially qualify for the renegotiation. The qualifying payments are required in order to demonstrate that the renegotiated terms are sustainable for the borrower. For corporate and commercial loans, which are individually assessed for impairment and where payments are frequently quarterly or longer, the observation of payment performance will depend on the structure of payments agreed as part of the restructuring.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms correspond to normal market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Derecognition of renegotiated loans

Loans that have been identified as renegotiated retain this designation during at least two years from the moment that they were not depreciated or until derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in derecognition of the existing loan, such as in some debt consolidations, the new loan is disclosed as renegotiated. When determining whether a loan that is restructured should be derecognised and a new loan recognised, we consider the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument. The following are examples of circumstances that are likely to result in this test being met and derecognition accounting being applied:

- an uncollateralised loan becomes fully collateralised or vice versa;
- the addition or removal of debt to capital or quasi capital conversion clauses;
- multiple facilities are consolidated into a single new facility;
- a change in the borrower;
- a change in the currency in which the principal or interest is denominated at rates different to the applicable market rates; or
- the contract is altered in any other manner so that the terms under the new or modified contract are substantially different from those under the original contract.

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

	31 Dec 2017				31 Dec 2016			
	Not past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	Not past due nor impaired	Past due but not impaired	Impaired	Total
	€m		**€m**	**€m**	€m		€m	€m
Residential Mortgages	**1**	**—**	**2**	**3**	1	—	1	2
Credit Logement	**—**	**—**	**8**	**8**	—	—	4	4
Other personal lending	**2**	**—**	**9**	**11**	3	—	1	4
Commercial real estate	**2**	**—**	**3**	**5**	1	—	3	4
Corporate and commercial	**77**	**—**	**21**	**98**	6	2	135	143
Financial	**—**	**—**	**—**	**—**	—	—	5	5
Total renegotiated loans and advances	**82**	**—**	**43**	**125**	11	2	149	162
Impairment allowance on renegotiated loans and advances as a % of total gross loans	**—**	**—**	**—**	**0.28%**	—	—	—	0.39%

Loan impairment charge to the income statement by client segment

	31 Dec 2017 €m	31 Dec 2016 €m
Personal	9	15
– residential mortgages	3	4
– *Credit Logement*	–	–
– other personal	6	11
Corporate and commercial	75	47
– manufacturing and international trade and services	(4)	38
– commercial real estate and other property-related	2	4
– other commercial	77	5
Financial	(3)	11
Total loan impairment charge at 31 December	**81**	73
Individually assessed impairment allowances	93	85
– new allowances	164	222
– release of allowances no longer required	(68)	(134)
– recoveries of amounts previously written off	(3)	(3)
Collectively assessed impairment allowances	(12)	(12)
– new allowances net of allowance releases	2	–
– recoveries of amounts previously written off	(14)	(12)
Total charges for impairment losses	**81**	73
Impairment allowances – banks	1	–
Other credit risk provisions	(1)	–
Impairment charges on debt security investments available-for-sale	–	–
Total loan impairment charge at 31 December	**81**	73

Loan impairment charges

	31 Dec 2017 €m	31 Dec 2016 €m
Individually assessed impairment allowances	**91**	85
– new allowances and unprovided losses	162	222
– release of allowances no longer required	(68)	(134)
– recoveries of amounts previously written off	(3)	(3)
– amount written off	(78)	(116)
– utilisation of allowance	78	116
Collectively assessed impairment allowances	**(11)**	(12)
– new allowances	3	–
– release of allowances no longer required	(14)	(12)
– recoveries of amounts previously written off	–	–
Total charge for impairment losses	**80**	73
– banks	1	–
– customers	81	73
Other credit risk provisions	(1)	–
Impairment charges on debt security investments available-for-sale	–	–
Loan impairment charges and other credit risk provisions	**81**	73
Customer charge for impairment losses as a percentage of closing gross loans and advances to customers	0.18%	0.18%
Balances outstanding		
Non-performing loans	971	1,200
Individual impairment allowances	482	560
Gross loans and advances	50,234	45,330
– banks	4,844	3,379
– customers	45,390	41,951
Total allowances cover as a percentage of non-performing loans and advances	**50%**	47%

Movement in impairment allowances on loans and advances to customers and banks

(Audited)

	2017				2016			
	Banks	Customers			Banks	Customers		
	Individually assessed	Individually assessed	Collectively assessed	Total	Individually assessed	Individually assessed	Collectively assessed	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Impairment allowance at 1 January	**–**	**(560)**	**(64)**	**(624)**	–	(609)	(77)	(686)
Amounts written off	**–**	**170**	**–**	**170**	–	131	–	131
Recoveries of loans and advances previously written off	**–**	**3**	**–**	**3**	–	(3)	–	(3)
Loan impairment charge	**(1)**	**(94)**	**11**	**(84)**	–	(85)	12	(73)
Exchange and other movements	**–**	**–**	**–**	**–**	–	6	1	7
At 31 December	**(1)**	**(481)**	**(53)**	**(535)**	–	(560)	(64)	(624)
Impairment allowance on loans and advances	**(1)**	**(481)**	**(53)**	**(535)**	–	(560)	(64)	(624)
– personal	**–**	**(76)**	**(6)**	**(82)**	–	(78)	(7)	(85)
– corporate and commercial	**–**	**(405)**	**(47)**	**(452)**	–	(467)	(53)	(520)
– financial	**–**	**–**	**–**	**–**	–	(15)	(4)	(19)
– banks	**(1)**	**–**	**–**	**(1)**	–	–	–	–
as a percentage of gross loans and advances	**0.02%**	**1.06%**	**0.12%**	**1.06%**	0.00%	1.33%	0.15%	1.38%

Wholesale lending

	Gross loans	Impaired loans	Impaired loans	Impairment allowance	Impairment allowance/ impaired loans	Loans impairment charge	Loan loss rate
	€m	€m	%	€m	%	€m	%
At 31 December 2017							
Corporate and commercial	**27,366**	**668**	**2.44**	**452**	**67.66**	**80**	**0.29**
– Manufacturing	**2,159**	**107**	**4.96**	**70**	**65.42**	**9**	**0.42**
– International trade and services	**12,104**	**410**	**3.39**	**270**	**65.85**	**25**	**0.21**
– Commercial Real Estate	**4,762**	**72**	**1.51**	**27**	**37.00**	**4**	**0.09**
– Other Property Related	**456**	**27**	**5.92**	**26**	**97.00**	**2**	**0.40**
– Governments	**1,642**	**–**	**–**	**–**	**–**	**–**	**–**
– Other commercial	**6,243**	**52**	**0.83**	**59**	**114.00**	**40**	**0.63**
Non-bank financial	**1,708**	**–**	**–**	**–**	**–**	**–**	**0.01**
Banks	**4,844**	**–**	**–**	**1**	**–**	**1**	**0.02**
Total wholesale lending	**33,918**	**668**	**1.97**	**453**	**67.81**	**81**	**0.24**
At 31 December 2016							
Corporate and commercial	24,767	872	3.52	521	59.75	47	0.19
– Manufacturing	2,266	201	8.87	106	52.74	6	0.27
– International trade and services	11,067	499	4.51	290	58.12	20	0.18
– Commercial Real Estate	4,384	79	1.80	31	39.24	4	0.09
– Other Property Related	570	33	5.79	29	87.88	4	0.66
– Governments	1,598	–	–	–	–	–	–
– Other commercial	4,882	60	1.23	65	108.33	13	0.27
Non-bank financial	1,563	20	1.28	19	96.00	11	0.73
Banks	3,379	–	–	–	–	–	–
Total wholesale lending	29,708	891	3.00	540	60.61	58	0.20

Loans and advances to banks

	31 Dec 2017	31 Dec 2016
	€m	€m
Not collateralised	**4,683**	3,128
Fully collateralised	**136**	224
Partially collateralised	**–**	–
– collateral value	**–**	–
At 31 December	**4,819**	3,352

Personal lending

Total personal lending

We provide a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes advances to 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 unsecured lending products such as overdrafts and personal loans. The following table shows the levels of personal lending products in the various portfolios in HSBC France.

Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, interest-only and regulated Loans. HSBC France 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 Mortgage lending is to take collateral. For HSBC France 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 home loan in case of default. Loans may also be made against a pledge of eligible marketable securities, cash or real estate.

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 collateral is determined using professional valuations, external valuations database companies and notary price index (INSEE). HSBC France utilises the notary price index (INSEE) to update its mortgage portfolio value on a monthly basis. In addition it obtains professional valuations for its high value mortgage loans (>3m) annually. The collateral valuation excludes any adjustments for 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.

Residential mortgage loans including loan commitments by level of collaterals

	31 Dec 2017	31 Dec 2016
	€m	€m
Non-impaired loans and advances		
Fully collateralised	**2,198**	2,310
– Less than 50% loan to value ('LTV')	**759**	812
– 51% to 60% LTV	**449**	413
– 61% to 70% LTV	**419**	411
– 71% to 80% LTV	**339**	356
– 81% to 90% LTV	**156**	188
– 91% to 100% LTV	**76**	130
Partially collateralised		
Greater than 100% LTV (A)	**96**	123
– 101% to 110% LTV	**22**	33
– 111% to 120% LTV	**21**	26
– greater than 120% LTV	**53**	64
– Collateral value	**96**	122
Not collateralised	**–**	–
Total non-impaired loans and advances	**2,294**	2,433
Impaired loans and advances		
Fully collateralised	**92**	44
– Less than 50% loan to value ('LTV')	**42**	14
– 51% to 60% LTV	**20**	8
– 61% to 70% LTV	**8**	4
– 71% to 80% LTV	**12**	8
– 81% to 90% LTV	**4**	7
– 91% to 100% LTV	**6**	3
Partially collateralised	**41**	62
– 101% to 110% LTV	**28**	53
– 111% to 120% LTV	**2**	1
– greater than 120% LTV	**11**	8
– Collateral value	**16**	12
Not collateralised	**–**	–
At 31 December	**2,427**	2,539

Analysis of Asset-Backed Securities ('ABS')

This section contains information about our exposure to asset-backed securities ('ABSs'), some of which are held through consolidated structured entities and summarised in the table below.

Overall Exposure

	2017	2016
	€m	€m
Fair value through profit and loss	**–**	–
Available for sale	**–**	–
Held to maturity	**–**	–
Loans and receivables	**–**	–
Total of Asset-Backed Securities	**–**	–

Counterparty Credit Risk

Counterparty Credit Risk exposure

Counterparty credit risk ('CCR') arises for derivatives and securities financing transactions. It is calculated for both the trading and non-trading books and is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction.

The Calculation of CCR Exposure

HSBC France applies the mark-to-market method to determine the CCR exposures ('EAD'). The mark-to-market evaluation method consists of the aggregation of the positive market values of all the transactions, supplemented by an 'add on'.

This majoration factor (future potential risk) is established according to directive CRD IV, and corresponds to a fixed percentage applied to the nominal of the transaction (according to the residual period and the type of the transaction).

The impacts of the netting agreements are also taken into account by applying the netting rules as defined in the mark-to-market methodology and by removing the guarantees.

As regards the securities financing transactions and collaterals, the exposure values are determined under the Financial Collateral Comprehensive Method. This method provides in the regulation CRD IV the supervisory volatility adjustment to be applied. For the banking book, the eligible collateral has more restrictive criteria than the trading book portfolio.

These exposure values are used to determine the counterparty credit risk capital requirements and weighted depending on the IRB approaches or standard approach.

Framework/Limits and Monitoring

Counterparty Credit Risk ('CCR') management in HSBC France 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 – Run the Bank ('TCR – RTB').

Credit authority for CCR

Corporate, Insurers and Asset Managers are under Wholesale Credit Risk's credit authority. Depending on the level of requested risk appetite, credit escalation is required to HSBC Bank plc WCR and Group WCR.

Sovereigns and Banks are directly under HSBC Bank plc WCR's credit authority and Group WCR in case of escalation.

All credit lines are reviewed at least once in the year based on the following responsibilities:

- Traded risk portfolio and market environment analysis and recommendation performed by TCR.
- Credit outlook, risk appetite update and limit validation is performed by HSBC France WCR, HSBC Bank plc WCR and Group WCR.

HSBC France TCRM, within HSBC France Traded Risk, has no credit authorities. Credit limits requests are decided and approved by the relevant credit authority as seen above. HSBC France TCRM only recommends credit limit application to the relevant credit authority, in the context of Global Annual Review and for specific limit requests. TCRM's recommendation highlights the main risk drivers and is based on the existing portfolio deep analysis, including a contingent market risk view, stress exposure and eventually mitigant improvements.

Credit limit set up for CCR management

Credit limits are granted at counterparty level and divided into four categories: Category A (Money Market and Issuer Risk), Category B (derivative fluctuation risk), Category S (settlement risk) and Loan Look Alike (LLA such as repo/reverse repo):

Category A: Split into two sub-categories MM limit for money market lending and BON for debt capital activity. MM is quantified in term of money amount lent/borrowed and BON in term of exposure at default ('EAD') e.g. notional multiplied by price of the bond.

Category B: Aims to quantify derivative price positive drift risk, and is calculated by aggregating current exposure (e.g. MtM – collateral if there is a CSA) and Future Fluctuation of Risk ('FFR'). FFR is quantified through either an advanced method based on a 95 per cent Monte Carlo VaR at portfolio level or a default method at trade level (add on basis). Both of these methods takes into account risk mitigants such as a master agreement and CSA's.

Category S (Treasury Settlement Limit): Settlement exposure is equal to notional exchanged on FX trades where there is no contractual netting nor use of clearing house.

Loan Look Alike: Aims to cap amount of collateral cash exchanged through repo/reverse repo and funding amount through bond forward. Exposure is followed up in term of cash out and notional for bond forwards.

Mitigating actions for counterparty credit risk

In order to reduce its counterparty credit risk, HSBC France has signed with the majority of its counterparties, collateral and 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 France are primarily cash or high quality and highly liquid assets.

The management of the collateral for OTC derivatives & repos and reverse repos are subject to extremely close monitoring. Specific controls exist to ensure the correct settlement / margin calls are made; daily re-valuations of exposures and reconciliations with counterparties for all collateralized transactions.

Credit Valuation Adjustment

In addition, CRD IV introduced a regulatory capital charge to cover the credit valuation adjustment ('CVA') risk, the risk of adverse movements in the credit valuation adjustments taken for expected credit losses on derivative transactions. Some counterparty exposures are exempt from CVA, such as non-financial counterparties and sovereigns.

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 France applies the Standard approach to determine the CVA capital charge; this approach relies on the counterparty credit risk exposures and is based on the effective maturity of the transactions. CVA weightings are provided in the CRD IV regulation based on counterparty external ratings.

Wrong-Way Risk

On top of those limits recorded at counterparty level, there are additional concentration limits such as Wrong-Way Risk.

Indeed, 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. Under certain transactions however, a correlation would exist and depending on the underlying structure of the transaction, these could be considered as either 'Wrong-Way Risk' or 'Right-Way Risk' transactions. Of these risks only 'Wrong-Way Risk', of which there are two specific types 'General' and 'Specific', are monitored and controlled on a daily basis:

General wrong way risk: is referred to a trade where there is strong correlation between counterparty default and market risk factor. For HSBC France, general wrong way risk covers reverse repo where counterparty country registration is the same as bond issuer country, as default could potentially mean a drop in bond price exchanged against cash. This is monitored in terms of cash out on sole reverse repo trade and aggregated at country level.

Specific wrong-way risk: is referred to a trade where there is a 100 per cent correlation between counterparty default and market risk factor (reverse repo where the bank receives a debt instrument of the counterparty against the cash posted). There is a very limited appetite for this risk.

As the legal documentations (margin calls) available to secure the bank's derivative and repo businesses with its clients leads to receive or post bonds, some WWR can be created and hence the collateral is monitored to control these potential exposures.

CCR limits monitoring

Counterparty Credit Risk exposures are monitored intra-day and at close of business by the TCRM team which uses Groups systems.

Any breach to the credit authority decision is escalated by TCRM as per the Functional Instruction Manual ('FIM') escalation process. Main CCR limits/exposure movements are reported monthly in the GBM Risk Management Meeting.

Counterpart risk[1] – by type of exposure and by product

	2017		2016	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
By exposure class				
IRB advanced approach	**685**	**55**	867	69
-Central governments and central banks	**—**	**—**	—	—
-Institutions	**685**	**55**	867	69
-Corporates	**—**	**—**	—	—
IRB foundation approach	**638**	**51**	1,068	85
-Corporates	**638**	**51**	1,068	85
Standardised approach	**422**	**34**	450	36
-Central governments and central banks	**—**	**—**	—	—
-Institutions	**419**	**34**	449	36
-Corporates	**3**	**—**	1	—
CVA advanced	**—**	**—**	—	—
CVA standardised	**1,128**	**90**	1,191	95
CCP standardised	**163**	**13**	131	10
By product				
-Derivatives (OTC and Exchange traded derivatives)	**1,784**	**143**	2,329	186
-Securities financing transactions	**73**	**6**	124	10
-Other	**—**	**—**	—	—
-CVA advanced	**—**	**—**	—	—
-CVA Standardised	**1,128**	**90**	1,191	95
-CCP default funds	**51**	**4**	63	5
At 31 Dec	**3,036**	**243**	3,707	296

1 *Includes settlement risk.*

Liquidity and funding risk management

Liquidity and funding risk management framework

Liquidity risk is the risk that HSBC France 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.

The objective of the group's internal liquidity and funding risk management framework ('LFRF') is to allow it to withstand very severe liquidity stresses and be adaptable to changing business models, markets and regulations.

HSBC Group does not manage liquidity risk and funding risk centrally. Liquidity and funding risk is managed by each operating entity on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed. HSBC's general policy is that each defined operating entity should be self-sufficient in funding its own activities.

All operating entities are required to manage liquidity risk and funding risks in accordance with the LFRF which includes having established Asset and Liability Committees ('ALCO') who are responsible for monitoring and controlling liquidity and funding.

HSBC France (HSBC France SA and its consolidated subsidiaries) manages its liquidity and funding risks in line with the HSBC group framework.

The key aspects of the internal Liquidity risk management are the following:

- stand-alone management of liquidity and funding by operating entity;
- operating entity classification by inherent liquidity risk ('ILR') categorisation;
- minimum LCR requirement depending on ILR categorisation;
- LCR is produced on a daily basis;
- minimum NSFR requirement depending on ILR categorisation;
- legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- annual individual liquidity adequacy assessment ('ILAA') by principal operating entity;
- minimum LCR requirement by currency;
- intra-day liquidity; and
- forward-looking funding assessments.

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

Our ILAA process aims to:

- identify risks that are not reflected in the LFRF, and, where required, to assess additional limits required locally; and
- Validate the risk tolerance at the operating entity level by demonstrating that reverse stress testing scenarios are acceptably remote and ensuring vulnerabilities have been assessed through the use of severe stress scenarios.

Management of liquidity and funding risk

Liquidity Coverage Ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ('EC') Delegated Regulation 2015/61.

It 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.

The calculation of the LCR metric, amongst other things, involves an assumption on operational deposits. Operational deposits are principally defined as transactional (current) accounts. To make an assessment of operational deposits both the balance history as well as the values of debits and credits over an account over a period time are referenced.

Net Stable Funding Ratio

The NSFR is designed to promote the long term stability of a bank by requiring it to fund its long term illiquid assets with commensurately stable funding; this reflects the bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The European calibration of NSFR is pending following the Basel Committee's final recommendation in October 2014. HSBC France, like the HSBC group, calculates NSFR in line with Basel Committee on Banking Supervision's publication number 295 ('BCBS295'), pending its implementation in Europe. This calculation requires various interpretations of the text, and therefore HSBC France's NSFR may not be directly comparable with the ratios of other institutions.

Liquid assets

Liquid assets are held and managed on a stand-alone operating entity basis. Most liquid assets are held directly by each operating entity's Balance Sheet Management ('BSM') department, primarily for the purpose of managing liquidity risk in line with the LFRF.

Liquid assets also include any unencumbered liquid assets held outside BSM departments for any other purpose. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to BSM.

Inherent liquidity risk categorisation

Each operating entity within the HSBC Group internally is assigned an inherent liquidity risk ('ILR') categorisation that is subjectively applied considering political, economic and regulatory factors within the host country and factors specific to the operating entities themselves, such as their local market, market share and balance sheet strength. The ILR is used to determine in part the entities risk appetite and the prescribed stress scenarios that each operating entity has to be able to withstand and manage to, including HSBC France.

Sources of funding

Customer deposits in the form of current and savings accounts payable on demand or at short notice form a significant part of our stable funding. Therefore HSBC places considerable importance on maintaining their stability. For deposits, stability depends upon numerous factors including maintaining depositor confidence in our capital and liquidity strength.

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.

Additional source of funding includes ordinary share capital, non-core capital instruments and total loss absorbing capacity ('TLAC') eligible debt securities that are suscribed by HSBC Bank plc as intragroup instruments.

Liquidity behaviouralisation

All stable deposits are assumed under the Group's frameworks to have a liquidity behaviouralised life beyond one year and to represent a homogeneous source of stable funding. The behaviouralisation of assets is far more granular and seeks to define the period for which it is assumed stable funding will be required for that asset.

Funds transfer pricing

HSBC separately manages interest rate risk and liquidity and funding risk under different assumptions. They have been developed to be consistent with HSBC's risk management framework. HSBC France is required to apply the Group's transfer pricing policy framework to determine for each material currency the most appropriate interest rate risk transfer pricing curve and a liquidity premium curve. The liquidity premium curve reflects the assessed cost of paying for term debt and stable funding more broadly. This cost is charged to the assets that require stable funding and then credited to the deposits that provide stable funding after external debt costs are paid for. The liquidity premium process supports the creation of assets and liabilities that meet the requirements of the NSFR regulation. In addition to this, where an asset or liability generates an outflow that requires HQLA to be held, it is charged the cost of holding the HQLA which is the difference between the assumed yield of the HQLA and the interest rate transfer pricing curve.

Liquidity stress testing

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

Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. The ALCO approves the underlying assumptions and reviews results. These results are also presented through the ILAAP to the Board.

Liquidity and funding risk profile

Liquidity coverage ratio

At 31 December 2017, HSBC France within the LCR risk tolerance level established by the Board and applicable under the Group's LFRF.

HSBC France reported European Commission ('EC') LCR at 31 December 2017 of 149 per cent to the French *Autorité de Contrôle Prudentiel et de Régulation ('ACPR').*

The following table displays the LCR levels for HSBC France consolidated on an EC LCR Delegated Regulation basis.

Liquidity coverage ratio

	At 31 Dec	
	2017	2016
	%	%
HSBC France	**149**	122

Net stable funding ratio

At 31 December 2016, HSBC France was within the NSFR risk tolerance level established by the Board and applicable under the LFRF.

The table below displays the NSFR levels for HSBC France consolidated on a BCBS295 basis.

Net stable funding ratio

	At 31 Dec	
	2017	2016
	%	%
HSBC France	**116**	120

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 France is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 31 December 2017, HSBC France was within the risk tolerance levels set for depositor concentration and term funding maturity concentration which were established by the Board and are applicable under the LFRF.

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 December	
	2017	2016
	€m	€m
Level 1	**18,529**	19,686
Level 2a	**835**	760
Level 2b	**2**	14

Level 1 liquid assets include HSBC France balances with its central bank (excluding non-withdrawable reserves) and notes and coins

Funding sources and uses

The following 'Funding sources and uses' table provide a consolidated view of how HSBC France' balance sheet is funded, and should be read in light of the LFRF, which requires operating entities to manage liquidity and funding risk on a stand-alone basis.

The table analyses HSBC France'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.

In 2016, the level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets – cash and balances with central banks and financial investments – as required by the LFRF.

Funding sources and uses

	2017	2016		2017	2016
	€m	€m		€m	€m
Sources			**Uses**		
Customer accounts	**38,277**	34,220	Loans and advances to customers	**44,856**	41,327
Deposits by banks	**13,297**	12,061	Loans and advances to banks	**4,843**	3,379
Repurchase agreements – non-trading	**6,586**	7,592	Repurchase agreements – non-trading	**13,781**	11,862
Debt securities issued	**5,159**	6,616	Trading assets	**22,401**	23,589
Subordinated liabilities	**576**	276	Financial investments	**20,548**	26,504
Financial liabilities designated at fair value	**7,565**	8,464	Cash and balances with central banks	**14,630**	4,714
Liabilities under insurance contracts	**21,853**	21,302	Net deployment in other balance sheet assets	**10,396**	11,497
Trading liabilities	**32,436**	26,468			
Total equity	**5,706**	5,873			
At 31 December	**131,455**	122,872	**At 31 December**	**131,455**	122,872

Contingent liquidity risk arising from committed lending facilities

HSBC France provides customers with committed facilities such as standby facilities to corporate customers and committed backstop lines to conduit vehicles sponsored by the group. 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 ensures that under a stress scenario any additional outflow generated by increased utilisation of these committed facilities will not give rise to liquidity risk for HSBC France.

HSBC France has set limits for non-cancellable contingent funding commitments after due consideration of its ability to fund them. The limits are split according to the borrower, the liquidity of the underlying assets and the size of the committed line. In relation to commitments to customers, the table below shows the level of undrawn commitments outstanding in terms of the five largest single facilities and the largest market sector.

HSBC France's contractual exposures as at 31 December monitored under the contingent liquidity risk limit structure.

HSBC France's contractual exposures as at 31 December monitored under the contingent liquidity risk structure

	At	
	31 Dec 2017	31 Dec 2016
	€m	€m
Commitments to customers		
– Corporates	**19.2**	17.2
– Retail and SME	**1.7**	2.7
– Financials	**2.2**	2.0
– Others	**1.3**	1.3
Commitments to customers		
– 5 largest[1]	**2.9**	2.9
– Largest market sector[2]	**1.4**	1.3

1 *Sum of the undrawn balance of the 5 largest facilities excluding conduits.*
2 *Sum of the undrawn balance of facilities granted to customers of the largest market sector, 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 group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an HSBC France basis consistent with the approach to managing liquidity and funding. Available collateral held in an operating entity is managed as a single consistent collateral pool from which HSBC France will seek to optimise the use of the available collateral.

The objective of this disclosure is to facilitate an understanding of 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)

	2017	2016
	€m	€m
Total-on balance sheet assets as at 31 December	**167,544**	169,423
Less:		
– reverse repo/ stock borrowing receivables and derivatives assets	**(48,188)**	(59,330)
– other assets that cannot be pledged as collateral[1]	**(26,205)**	(25,373)
Total on-balance sheet assets that can support funding and collateral needs as at 31 December[1]	**93,151**	84,720
Add:		
– fair value of collateral received in relation to reverse repo/ stock borrowing/derivatives that is available to sell or repledge	**41,115**	34,408
Total assets that can support funding and collateral needs as at 31 December[1]	**134,266**	119,128
Less:		
– on-balance sheet assets pledged	**(26,215)**	(24,225)
– re-pledging of collateral received in relation to reverse repo/ stock borrowing	**(36,221)**	(29,036)
– re-pledging of collateral received in relation to derivatives	**–**	–
Total assets available to support funding and collateral needs as at 31 December[1]	**71,830**	65,867

1 *2016 figures have been adjusted to include goodwill impairment impact.*

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 France, as well as specific committees, the roles of which are set out below.

Market Risk governance

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 France, 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 has a European dimension and a local dimension in certain countries such as 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 France market risk governance

Locally, the Chief Risk Officer confers to WMR France the management of the market risks limits for HSBC France 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 France Board. These are subject to an annual review by the HSBC France Market Risk Forum.

The HSBC France Market Risk Forum ('MRF')

Its role is to oversee all market risks 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. Traded Risk France acts as secretary of the committee.

The HSBC France 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 Head of Traded Risk presents on a monthly basis the main points of the Market Risk Forum to be raised at HSBC France RMM in terms of market risk.

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 France Market Risk Forum. He is also a member of the HSBC France 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 France compatible with the HSBC Group's strategy and 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 France'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 submit it for approval to the Head of WMR France 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 France'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 France.

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 ('IMR')

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 Middle East & Africa ('EMEA').

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 PL, and reconciles it at month-end with the accounting PL. It performs controls over off-market and off-margin transactions 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 France Chief Finance Officer, and functionally to the regional Head of Product Control.

The HSBC France Valuation Committee

The Valuation Committees meets 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 2017

The 2017 HSBC France market risk limits were broadly in line with those in 2016 without any substantial changes on the main risk limits. As a reminder, market risk limits have been progressively reduced in the aftermath of the 2008 financial crisis for the Structured Rates desk and following the 2011 European sovereign debt crisis for the Flow Rates desk.

The Euro interest rates markets were still driven by the Quantitative Easing programme launched by European Central Bank ('ECB') in January 2015.

The better global economic outlook leads Mario Draghi to announce a gradual reduction of the programme in October. Interest rates remained at low level throughout the year. Nevertheless, a regain of tension has been observed before the French presidential election whose results have been welcomed by financial markets: spreads between German and France debts collapsed, ending at 0.34 per cent at the end of June for a 10-year issue, compared with 0.80 per cent in February.

Portugal debt have been upgraded by Standard & Poor's materialising the better economic situation of the country in September. Spain has been affected by the Catalonia crisis.

Similar to previous years (since 2014), HSBC France participated in 2017 to the Prudential Regulation Authority ('PRA') Stress Test exercises as part of HSBC Group.

During 2017 year, HSBC France continued to play a major role as a platform for HSBC Group in Eurozone sovereign debt and Rate Derivatives in Euro and US dollar.

Eurozone Sovereign exposures, in particular peripherals remained throughout 2017 within the allocated limits.

HSBC France has received from the European Central Bank the approval to use the new internal model for the computation of the Value at Risk ('VaR').

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 France 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 (which stands for French Banking Law) desks which in turn receive a set of limits from MRM after submission by the desk head of a Trading Desk Profile. 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 Value at Risk ('VaR'). An internal model of HSBC France 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 France calculates VaR daily. The VaR model used by HSBC France, 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 France 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.

HSBC France has been working with Group HSBC to improve the VaR current model and submitted to the ECB a new VaR model at the beginning of 2016 in order to better encompass very low or negatives rates environment has been validated by ECB and implemented in May 2017.

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 France.

Risk not in VAR framework

VaR captures the traditional risk factors directly observable 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 France also calculates an additional VaR measure called 'Add-On VaR' or Risk not in VaR in respect of these exotic risk factors.

Stressed VaR

The VaR captures the traditional risk factors directly observable 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 France also calculates an additional VaR measure called 'Add-On VaR' or Risk not in VaR in respect of these exotic risk factors. Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

Stressed VaR was in the scope as well of the introduction of the new internal model but with less obvious impacts as historical stressed scenarios did not stand in a period of low or negative rates environment.

Stress Testing

Stress testing is an important tool that is integrated into the groups market risk management tool to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity, regional and the 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 consider the largest move in each risk factor without consideration of any underlying market correlation;
- hypothetical stress scenarios 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 incorporate historical observations of market movements during previous periods of stress which would not be captured within VaR.

Others scenarios are designed locally to take into account HSBC France specific activities 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 is discussed and reviewed during the monthly Market Risk Forum. Local stress test scenarios defined in HSBC France 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 deformation of risks of these books. These results are presented on a monthly basis to the MRF.

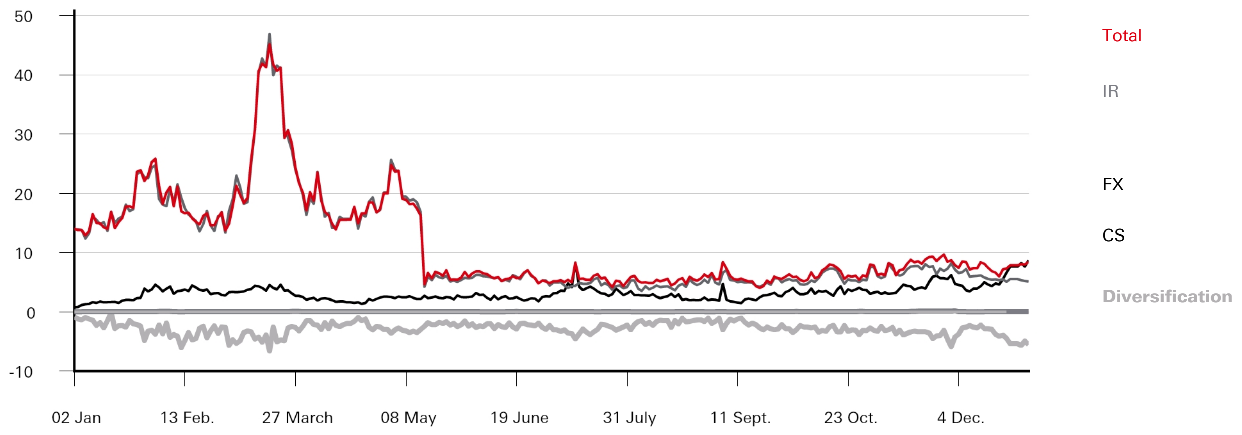
Trading portfolios

Value at Risk of the trading portfolios

Given the very low rates environment and the identified model deficiencies, the Value at Risk and Stressed Value at Risk levels increased in 2016 compared to 2015 and remained high in the first quarter of 2017.

The introduction of the new VaR model validated by the ECB in May 2017 has resulted in significant reduced numbers on VaR and associated RWAs.

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 2017	**0.06**	**5.14**	**–**	**8.73**	**(5.53)**	**8.45**
Average	**0.03**	**10.91**	**–**	**3.16**	**(2.80)**	**11.40**
Maximum	**0.20**	**46.86**	**–**	**8.73**	**(6.58)**	**45.14**
Balance at 31 Dec 2016	0.02	13.28	–	0.77	(0.81)	13.41
Average	0.02	12.15	–	1.66	(1.88)	12.08
Maximum	0.01	4.14	–	0.72	(4.85)	4.14

1D SVaR of the Trading portfolio

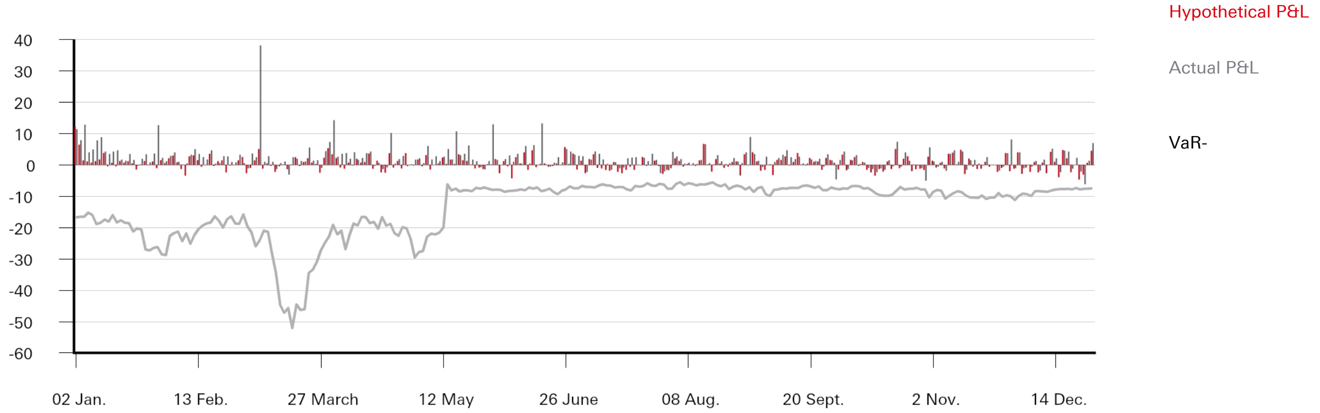
The period used for the Stressed VaR is calibrated regularly during the year and is extracted for the period starting in 2007.

No regulatory exception has been recorded in 2017 for HSBC France.

1D SVaR of the Trading portfolio

	29 Dec 2017
Average	**17.86**
Maximum	**31.73**
Minimum	**7.99**
At 31 Dec 2017	**11.48**

HSBC France Backtesting



Non-Trading portfolios

Value at Risk of the non-trading portfolio

The Interest VaR of the non-trading portfolio is lower at the end of 2017 than at the end of 2016. This is explained by the same reasons as for the trading portfolio.

Total accrual VaR by risk type

	Foreign Exchange	Interest Rate	Equity	Credit Spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
2017	**—**	**1.59**	**—**	**9.23**	**(1.75)**	**9.08**
Average	**—**	**2.53**	**—**	**6.33**	**(1.94)**	**6.94**
Maximum	**—**	**11.9**	**—**	**13.04**	**(5.9)**	**14.43**
2016	—	9.93	—	2.99	(2.61)	10.38
Average	—	8.36	—	4.57	(3.32)	9.7
Maximum	—	12.05	—	12.01	(7.79)	13.76

Total non trading VaR by risk type (€m)

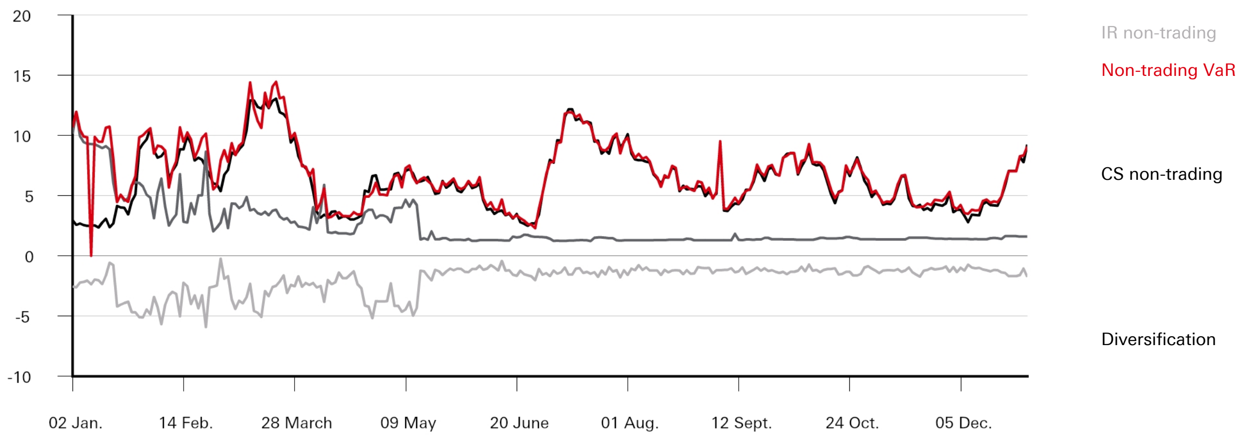


Table 19: Market risk – RWA and capital required

	2017		2016	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
Internal model based	**4,787**	**383**	7,603	608
– VaR	**1,191**	**95**	2,358	188
– stressed VaR	**3,596**	**288**	5,245	420
– incremental risk charge	**—**	**—**	—	—
– other VaR and stressed VaR	**—**	**—**	—	—
Standardised approach	**401**	**32**	304	25
– interest rate position risk	**356**	**28**	269	22
– foreign exchange position risk	**—**	**—**	—	—
– equity position risk	**—**	**—**	—	—
– commodity position risk	**—**	**—**	—	—
– securitisations	**—**	**—**	—	—
– options	**45**	**4**	35	3
At 31 Dec	**5,188**	**415**	7,907	633

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 our non-traded assets and liabilities and is monitored and controlled at Group level by Group Treasury and at the entity 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 BSM, who are overseen by Wholesale Market Risk and Product Control functions.

Governance and structure

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 Group's overall banking book interest rate risk exposure and managing the balance sheet in conjunction with BSM.

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 BSM 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 BSM.

The internal transfer pricing framework is governed by each entities Asset and Liability 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. ALCO is responsible for monitoring and reviewing each entities 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 local ALCOs.

Non-traded assets and liabilities are transferred to BSM 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. The maximum percentage of any portfolio that can be behaviouralised is 90 per cent with the residual treated as contractual, meaning overnight.

BSM manages the banking book interest rate positions transferred to it within the Markets Risk limits approved by RMM. Effective governance across BSM is supported by the dual reporting lines it has to the Chief Executive Officer of GB&M and to the Group Treasurer. BSM 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 BSM 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

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.

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 as well as HSBC Holdings.

NII sensitivity reflects the Group's sensitivity of earnings due to changes in market interest rates. Entities forecast both one year and more recently, since December 2017, five year net interest income sensitivities across a range of interest rate scenarios based on a static balance sheet assumption. Sites include business line rate pass-on assumptions, re-investment of maturing assets and liabilities at market rates per shock scenario and prepayment risk. BSM 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
- Ramping parallel shock of the yield curve of +/-25 basis points at the beginning of each of four quarter.

EVE sensitivity is a present value calculation of the banking book under different interest rate scenarios where equity is considered to have zero value. The balance sheet is valued on a run off basis, no balance sheet growth or reinvestment and will incorporate behaviouralised profiles of non-maturity products and customer optionality.

These amounts concern HSBC France SA perimeter. Given the interest rate risk management policies applied in the subsidiaries, the inclusion of this scope is considered non material, with the exception of HSBC Assurance France, which has its own ALCM structure (Cf. risk management of Insurance operations).

Key risk Drivers

The bank's interest rate risk in the banking book can be segregated into the following drivers:

- Managed rate risk – pricing of products are dependent upon business line decisions and therefore do not correlate to movements in market interests rates.
- Re-investment risk – risk arising due to change in rates when behaviouralised balances are reinvested as per the transfer pricing policy
- Basis Risk – where assets and liabilities are priced of different market indices creating a re-pricing mismatch
- Prepayment risk – customer behaviour in different interest rate scenarios creates a mis-match between the profile used to hedge the interest rate risk and the actual profile
- Duration risk – changes in the maturities of assets and liabilities due to changes in interest rate.

Expositions

HSBC France SA 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 21 million on one year as of 31 December 2017 for a decrease of 100 basis points. The impact of an up 200 basis point scenario on shareholders' equity would be EUR -634 million at 31 December 2017.

The following table sets out the interest rate gap by time buckets on Retail and Commercial bank's euro activities as of 31 December 2017 before hedging transactions.

Expositions

	1 year	3 years	5 years	7 years	10 years
	€m	€m	€m	€m	€m
Interest rate gap	2,880	266	211	122	(263)

In a context of strong competition and low interest rates, a large number of renegotiations and early repayments has been observed over the first half of 2017, an increase compared with the second half of 2016 already at a high level. A significant decrease has been observed over the second half of 2017. In addition, the environment of low or negative rates has resulted in an increase of the Non-Interest Bearing Current Accounts balances. Considering the cyclical increase, HSBC France has adapted the hedging maturities accordingly. The historically low rates environment, should it last longer, would keep on burdening the banking book's Net Interest Margin.

The Non-qualifying Hedqe ALCO book has been closed as the hedges were no longer required to cover the bank's external risk position. This was a result of high early repayment and renegotiations of the home loans as well as changes in the behaviouralisation of certain fixed rate products.

Balance sheet management

Effective governance across BSM is supported by the dual reporting lines it has to the Deputy Head of HSBC France GB&M and to the Head of BSM EMEA. BSM is responsible for managing liquidity and funding under the supervision of the local ALCO.

It also manages the non-trading interest-rate risk coming from positions transferred by ALCM within a defined Risk mandate.

In executing the management of the liquidity risk on behalf of ALCO, and managing the non-trading interest rate positions, BSM invests in highly-rated liquid assets in line with the Group's liquid asset policy.

The majority of the liquidity is invested in central bank deposits and government, supranational and agency securities with the remainder utilised by Global Markets to fund HQLA assets.

Withdrawable central bank deposits are accounted for as cash balances. Interbank loans, statutory central bank reserves and loans to central banks are accounted for as loans and advances to banks. BSM's holdings of securities are accounted for as Available-For-Sale assets.

Statutory central bank reserves are not recognised as liquid assets. BSM is permitted to use derivatives in accordance with its mandate to manage interest-rate risk. Derivative activity is predominantly through the use of vanilla interest rate swaps which are part of cash flow hedging and fair value hedging relationships.

Credit risk in BSM is predominantly limited to short-term bank exposure created by interbank lending, exposure to central banks and high quality sovereigns, supranationals or agencies which constitute the majority of BSM's liquidity portfolio.

BSM does not manage the structural credit risk of any Group entity balance sheets.

VaR is calculated on both trading and non-trading positions held in BSM. It is calculated by applying the same methodology used for the Markets business and utilised as a tool for market risk control purposes.

BSM holds trading portfolio instruments in only very limited circumstances.

Positions and the associated VaR were not significant during 2017 and 2016.

Structural foreign exchange risk

The structural foreign exchange exposition of HSBC France is limited. It concerns few investments, not significant, in the foreign subsidiaries, as structural foreign exchange exposition arising from banking operations is systematically transferred to the trading room which manages exchange rate risk according to the limits set by the Risk Management Committee.

The exchange rate risk on equity is due to investments in foreign currency that are not hedged by financing in foreign currency. This exposure corresponds to net investments in subsidiaries, branches or associated companies for which the euro is not the functional currency.

HSBC France's investments in foreign subsidiaries are small in amount. The structural foreign exchange exposure is mainly linked to these subsidiaries' profits retained in reserves.

HSBC France monitors this risk through an indicator of exposure and capital ratios sensitivity to movements in main currencies, calculated by the Finance Department.

As at 2017 year-end, circa. 3.3 per cent of the credit and counterparty risk RWAs are US dollar or GBP denominated. As at 2016 year-end this ratio was 12 per cent. Apart from EUR and these, other currencies are non-significant within HSBC France's risk-weighted exposures.

For a combined variation of +/- 20 per cent of both GBP and US dollar against EUR, the estimated impact on the CET 1 ratio is of circa. +/- 0.15 per cent.

Operational risks

In accordance with the Order of 3 November 2014 and the Operational Risk Functional Instructions Manual ('FIM') definition, 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.

Since 2012, HSBC adopted a risk management and internal control framework called the Three Lines of Defence to ensure completion of its commercial objectives and meeting regulatory and legal requirements and its accountabilities towards shareholders, customers and employees.

This framework updated on 2015 was strengthened through the Operational Risks Transformation Programme ('ORTP'). This new model aims at strengthening the articulation of the various internal control and operational risks management levels and efficiently coordinating the risks and control activities. This update led HSBC France to review the definition and the structure of risk management departments defined in 2009. Moreover, to comply with the French regulation (Order of 3 November 2014), risk management departments have been renamed to adopt the terminology of 'risk functions'.

Along with this update, a new operational risk system, Helios, which is underpinned by the Operational Risk Management Framework ('ORMF'), was implemented in 2017.

The HSBC Group defined a risk taxonomy in which operational risks are split in 15 risk categories the main one being: Financial Crime Compliance, Regulatory Compliance, Information, External Fraud, Internal Fraud, Systems and Operations.

The Three Lines of Defence

The First Line of Defence includes businesses, functions and HOST responsible for managing operational risks within their activities and operations and is in charge of first level controls to mitigate those risks. Since some activities and processes can be outsourced externally or internally to HOST or other functions, these responsibilities are extended to outsourced activities to ensure complete risk management and monitoring.

There should be a clear independence between the First, Second and Third Line of Defence responsibilities. Businesses, functions and HOST are responsible for ensuring that risks in their perimeters are identified, managed and mitigated by a first level control framework in line with the risk appetite.

First Line of Defence's responsibilities have been specified in March 2017 within the Global Risk FIM.

The Second Line of Defence includes functions and HOST. They are responsible for ensuring that all activities they oversee within HSBC France, are effectively managed by the First Line to be compliant with the risk appetite defined by HSBC France. They have a significant responsibility to ensure that HSBC France meets its operational risks management and internal control requirements for their risk areas. They have an advisory and expertise role and ensure that first line activities are appropriate in terms of risk and control management. The Second Line of Defence is independent from the risk taken by the First Line of Defence in its activities.

The Third Line of Defence, Internal Audit, provides independent assurance to management and the non-executive Risk and Audit Committees that HSBC's risk management, governance and internal control processes are operating effectively. Periodic controls of HSBC France 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. Internal Audit assurance assesses the management of the risks and controls by the first line as well as controls oversight by the second line.

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 France and represents one of the main ways for improvement of a customer quality service.

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 the HSBC Group, HSBC France 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.

Basel Lines of Business	Regulatory Capital Charge %
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

For operational losses, COREP statements are produced and communicated to the ACPR by the Finance department on behalf of HSBC France; the Operational Risk function contributes to the production of two of these three COREP statements: Operational Risk Details and Operational Risk Loss Details on the consolidated perimeter of HSBC France, 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 BRCM in the operational risk management system, the Operational Risk function is in charge of:

- Completing some COREP statements communicated by the Finance department;
- Performing first level controls of these COREP statements production.

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 Risk function and BRCM and training and awareness actions;
- Centralisation and coordination of HSBC France ORM work chaired by the CRO;
- 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 and external rules and is up to standard. The key responsibility for control falls to the managers of the various businesses, functions and HOST who must ensure that primary controls are conducted in a proper manner compliant with the HSBC Global Standards Manual ('GSM'), which states: 'controls should be considered as fully embedded in the activities'.

In addition to first level of controls, the HSBC France group's permanent control is based on risk management framework, under the responsibility of the Chief Risk Officer. This comprises mainly:

- the Business Risk and Control Management teams ('BRCM'), who monitor and manage risks in their business/function;
- the functions acting as the second line of defence particularly, Compliance responsible for risk of non-compliance for HSBC France as a whole as defined in the French order of 3 November 2014;
- the Operational Risk function, in charge of overseeing the Operational Risk Management Framework. The Operational Risk function oversees the work carried out by the Business Risk and Control Managers ('BRCMs') on operational risks teams within the businesses, functions and HOST who reports hierarchically to these businesses and functions heads. Operational Risk function works closely with Risk Stewards, responsible for overseeing risks, internal control and issues over their perimeter;
- and lastly, a 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 France'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 Periodic Control Officer and the Chief Operating Officer ('COO') of HSBC France, reviews:

- Any deficiencies revealed by SOX control measures (documentation and 'self-assessment' of businesses and function within the scope).
- The result of tests run by the Statutory Auditors.
- Action plans progress and status.

On a quarterly basis, HSBC France'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 oversees by the Chief Risk Officer ('CRO'), plays a major role. It is composed by specialised direction:

- Financial Crime Compliance;
- Regulatory Compliance;
- Security and Fraud, which oversees fraud risk, physical security, information security and business continuity;
- Retail Credit Risk; which oversees retail credit risks;
- Wholesale Credit and Market Risk; which oversees credit risks on wholesale market and market risk;
- Operational Risk, function in charge of oversight operational risk and manage the permanent control framework – Operational Risk Management Framework ('ORMF').

The Chief Risk Officer ('CRO') relies also on other functions to ensure a complete and accurate risk oversight (Legal, Human Resources, Finance function as regard accounting, liquidity, structural interest rate, forex and tax risks, and HOST in particular for the oversight of IT and outsourced services).

Since 2015, Legal, Financial Crime Compliance and Regulatory Compliance functions report directly to the Chief Executive Officer ('CEO'), in accordance with HSBC Group's organisation. The FCC and RC remain part of the Risk function and FCC and RC Heads report functionally to the CRO and to the Heads of FCC and RC for the region. According to that organisation, the Tax function is part of the Finance function.

The RMM, which is chaired by the Chief Risk Officer and includes the members of the Executive Committee in an overarching Committee overseeing risk management and permanent control. Next to it, the committee in charge of overseeing more specifically the Financial Crime Risk and Sanctions Risk is the Financial Crime Risk Management Committee.

It meets every month to analyse HSBC France's main risks, as established by a previously agreed agenda.

The RMM reports functionally to its European equivalent in the HSBC Group.

Locally, all risk reports presented to the RMM informed the HSBC France's Executive Committee, the Audit Committee, the Risk Committee and the Board of Directors. The RMM covers all entities operating in France.

The RMM makes use of the work of all dedicated committees within each business that cover all risks monthly (see the organisation chart for 'Committees Governance and structure' on page 16).

This framework is completed by dedicated risk forums and working groups in businesses and functions combining the various levels of internal control, in order to manage, monitor and control all HSBC activities specific risks in France. Main functions acting as second line of defence hold a monthly or quarterly meeting, chaired by the function head and attended by function's members and experts, businesses representatives, Operational Risk representatives and for some of them the Chief Risk Officer.

HSBC Group Manuals

The HSBC Global Standards Manual ('GSM') sets out the standards that all HSBC Group companies must observe. It applies to all the HSBC Group's businesses all over the world. No dispensation is granted without the specific agreement of the HSBC Group Chairman.

All the HSBC Group's business activities must be fully documented in manuals or compendia of procedures. Functional Instruction Manuals ('FIMs') 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 FIM's owner for the HSBC Group.

In addition, HSBC France and its subsidiaries are required to document their operating procedures and their specific practices Business Instruction Manuals ('BIMs') or equivalent, and internal circulars. 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. They are readily available on the HSBC France Intranet. 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 Handbook features business ethics rules that apply to all staff, relating to 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 manual that collates operational application procedures relating to staff business ethics and compliance with laws and regulations. Staff members working in functions regarded as 'High Risk Role' are also subject to specific requirements relating to personal transactions.

In 2016, HSBC implemented its 'charter' to complement the local Codes of Conduct to offer a common approach that brings HSBC purpose and values to life in the decision-making process.

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 act as facilitates for managing, 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.

Among these authorities, the Risk Management Meeting ('RMM'), the Operational Risk Meeting (authority related to Operational Risk), the Compliance Committee and Forum play a key role in control framework coordination.

Operational Risk Management Framework ('ORMF')

Within the second line of defence, the Operational Risk function is specifically responsible for the Operational Risk Management Framework ('ORMF') through notably defining the operational risks management framework and policies, overseeing their implementation and ensuring an independent monitoring of the ORMF.

The Operational Risk function, supervised directly by the CRO should have a holistic and transverse 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 regional Operational Risk team to which it reports functionally.

The Operational Risk function works closely with the businesses and functions BRCM teams and the Risk Stewards on major themes such as reviews of risk and control maps, design and monitoring of action plans, incident reporting, risk indicators and control plans.

The Operational Risk function also acts as secretary for the HSBC France Risk Management Meeting ('RMM') chaired by the Chief Risk Officer which is the main committee of risk management and permanent control. One of the missions of the Operational Risk function is to help the HSBC France executive management, starting by the CRO, achieve a transverse vision of risks, both complete and prioritised and if possible, prospective of the main operational risk issues of all HSBC France entities.

Finally, the Operational Risk team acts as an interface with the Global Operational Risk team and with the European regional team. Particularly, it broadcasts in France instructions and best practices communicated by the Group.

Like the HBEU Operational Risk team, HBFR Operational Risk function is organised by functions, business and HOST to facilitate communication with the First Line of Defence. It ensures that the operational risk and control framework complies with French and European Union regulatory requirements.

Monitoring authorities

The Operational Risk Meeting ('ORM') meets on a quarterly basis under the chairmanship of the Chief Risk Officer. The purpose is to ensure a transverse organisation and coordination of operational risks management and control framework.

Within this framework, the role of the ORM is to:

- communicate about the latest developments in terms of risk management framework;
- analyse the operational risks related to transverse issues or methodological questions (such as risk assessment, monitoring tool), define and periodically review the operational risks monitoring indicators;
- promote risk culture and knowledge of operational risks by facilitating communication between the first line and the second line;
- review the results of analysis performed by Operational Risk function such as the transverse risks monitoring, RCA analysis, internal events or BRCM control results.

The HBFR ORM attendees are:

- Heads of HSBC France businesses, Chief Control Officer ('CCO') HOST and CCO GBM;
- Heads of main functions, Risk Stewards;
- Head of Global Internal Audit France ('INA FRA');
- Operational Risk function in charge of preparing, presenting the meeting and minutes.

The summary of the work and findings of the ORM is regularly communicated to the Risk Management Meeting, the Risk Committee and the Board of Directors of HSBC France.

The work of the ORM is based primarily on the summary of the work of the HSBC France Operational Risk Forum, which combines the Operational Risk function and all Business Risk and Control Managers ('BRCM'), in the presence of a representative of the main second line of defence functions and a delegate from the Internal Audit.

The HSBC France Operational Risk Forum meets quarterly as per agenda defined by the Operational Risk function, a few days before the Operational Risk Meeting. The supporting material prepared by the Operational Risk function and based on the discussions and issues raised during the Forum allows the Operational Risk function to achieve a summary of the highlights.

Operational Risk Management

HSBC France and its activities are exposed to all the types of operational risks that banks face, particularly:

- operational risks link to Record Management process related to customer's document and data and ability to retrieve them with integrity and completeness in short delays;
- Risks linked to data quality, accuracy and completeness in particular for data in scope of new regulatory requirements and reportings;
- Operational risks and Execution risk related to change management, and process, systems and organisations modifications;
- Risks linked to outsourced services management (external vendors and HSBC Intra-group);
- IT risks notably linked to security, resilience and ever greening of systems and architecture and to licence management;
- Information security risks;
- Risk related to cybercrime (phishing, malware, cyber-attacks…);
- External fraud risks, in particular: card fraud, Internet fraud, false transfers, social engineering;
- Risk of mistakes in processing transactions;
- Risk related to customer relations.

Operational risks may have consequences on reputational risk. Any lapse by HSBC France 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, regulators and any other stakeholders. Safeguarding and building upon the Group's reputation is the responsibility of every employee of HSBC France.

Identification and Management of Operational Risks

Governance

The general organisation of the permanent control is the responsibility of the Chief Risk Officer ('CRO'), who is supported by the Operational Risk function. The Operational Risk function works closely with the independent control teams Business Risk and Control Management ('BRCM') of Global Businesses, Global Functions and HOST and with the other Global Functions belonging to the second line of defence.Within this framework, the lead committee in charge of overseeing risks is the Risk Management Meeting. This committee relies on works of global businesses and some second line of defence functions (legal, regulatory compliance, financial crime compliance) risks management committees.The RMM reviews on a monthly basis the operational risks of businesses, functions and HOST, the progress made in action plans implemented to mitigate identified risks and operational losses. Operational Risk function holds a specific meeting on a regular basis, called Operational Risk Meeting and transversal topics with an operational impact; and disseminate risk culture within Global Business and Global Functions.This framework relies on Forums and working groups related to operational risks and internal control within the businesses and risk functions that are responsible for overseeing management of the operational risks and permanent controls of each entity.

The HSBC France group has procedures covering the process for the identification, reporting, management, control and prevention of operational risks, specifying in particular that:

- Operational risk management is first and foremost the responsibility of managers through how they run 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 on going basis in order to identify any significant changes;
- Operational losses are collated and reported on a monthly basis.

HSBC France uses the standardised approach for calculating the regulatory capital needed to cover operational risks. To estimate economic capital, HSBC France 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

According to the Functional Instructions Manual ('FIM'), updated on march, 2017 implementation of operational risk maps is under responsibilities of risk and control owner. Business Risk and Control Management ('BRCM') teams act as coordinator for establishing and regularly updating risk maps ensuring a regular update of them.

BRCM teams coordinate risk maps assessment and ensure the appropriate methodology is used and regularly updated. They also may bring help on the Risk and Control Assesment ('RCA') methodology and use of the operational risk system, Helios.

According to the order of 3 November 2014, article 100: 'These systems and procedures allow the liable companies to measure and manage all the causes and all the significant effects of the risks and to have a risks' mapping which identifies and estimates the risks incurred with regard to internal and external factors' and article 102 'the cartography mentioned in article 100 : a) take into consideration all the incurred risks; b) is established by entity or business line, at the level in which is exercised, where necessary, the strengthened supervision), under strengthened or additional; it estimates the adequacy of the risks incurred with regard to (compared with) the evolutions of the activity; d) identify the actions (shares) to master the risks outstanding discounted bills by: – the strengthening of the systems of permanent control; – the implementation of the systems of surveillance (supervision) and control (master's degree) of the risks mentioned in the title V; – the definition of the emergency plans and the continuity of the activity planned in the article 215.', the mappings of risks cover all the entities.

The risk maps follow notably Operational Risk FIM instructions. They are designed for a perimeter with a methodology called Risk and Control Assessment ('RCA') on the assessment of inherent risks, which is the risk level without considering the control in place and then 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 prioritisation is a monitoring and decision-making tool for executive management. This approach by risk level helps to create a scale level monitoring plan with a risk-based approach.

Risk maps cover operational risks to which entities are exposed and includes first level key controls as well as the framework of second level controls to mitigate risks.

The first level of controls environment is scored according to a 3 score scale: effective, need improvement, ineffective. Controls scored 'Need improvement' or 'ineffective' controls lead to a corrective action plan to ensure control environment will be effective in order to make operational again the plan which has been controlled.

Operational teams, specifically Risk Owners, are in charge of establishing and updating risk maps in first instance. They have to identify and assess risks with Control Owners as well as first level controls to perform. This work is performed regularly notably based on:

Recommendation from Permanent control reviews performed by BRCM;

- Recommendations from Risk Stewards;
- Recommendation from Periodic control reports, or third parties reports (including regulators);
- Internal or external events.

The Operational Risk function used to organise RCA challenge sessions or workshops to review higher risks, with Risk Stewards, BRCM, heads of businesses, functions, HOST, the Internal Audit and the CRO to present the most material risks for the entity.

Based on risk maps established by businesses, functions and HOST, BRCM teams define a second level control plan for their entities. This plan presents independent second level control activities that will be performed throughout the year. The programme has to be reviewed and updated regularly, based on any change of circumstances to ensure its relevance.

The monitoring plan is established using a risk-based approach to ensure an appropriate and regular cover of risks on a circa year cycle. BRCM can use various assessment methods to do so: tests, thematic reviews or indicators monitoring or any other investigation method that may help obtain reasonable assurance on first level control efficiency.

The control plan has to be recorded in the operational risk management system and results have to be recorded all along its execution.

BRCM teams have to regularly monitor the plan progress and have to notify any delay. In case of significant delay, an action plan has to be implemented to ensure an exhaustive coverage of inherent risk rated Very High/High inherent risks.

Main deficiencies raised during control plan have to be presented during the entity's risk committee and during HSBC France Operational Risk Meeting ('ORM'). A formalised monitoring of the corrective actions implemented has to be performed by BRCM, notably by recording in the Group operational risk management system. Operational Risk function produces regular summary of the main deficiencies identified by BRCM reviews to the governance bodies: Risk Management Meeting ('RMM'), Operational Risk Meeting ('ORM') and Risk Committee.

In 2017, the mains risks identified by HSBC France are related to:

- Financial Crime
- Information and Cyber Security
- Systems

The AML risk is followed in a dedicated committee, the Financial Crime Risk Management Committee ('FCRMC') created in the first quarter of 2017, under the responsibility of the Chief Executive Officer. The ISR risk is followed in a new instance created in the fourth quarter of 2017, the Cyber Defence Forum under the responsibility of the Chief Operating Officer ('COO') and the HSBC France Head of Security Risk.

Incidents management and escalation

A monthly report for the HSBC France and HSBC Group is produced with data recorded in HSBC Group's incidents and operational risks management system Helios. Operational Risk function presents a summary report to the relevant bodies (Operational Risk Meeting, Risk Management Meeting and Risk Committee).

This application allows for decentralised management of the risk identification and updating process, declarations of operating losses and the monitoring of action plans decided with a view to mitigating the criticality of risks deemed to be major.

Operational incidents nature

The Functional Instructions Manual ('FIM') allows to categorise operational incidents respective of different natures and also allows to distinguish various impact types associated to incidents.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 to control them as soon as possible. A diagnosis on control deficiencies is established and associated risk maps and procedures have to be updated consequently. All these tasks have to be performed by BRCM.

Main risks, incidents and risk indicators may result in action plans that have to be monitored and integrated in the control framework of BRCM teams. These action plans are also monitored by businesses and functions risk committees and by the HSBC France Operational Risk Forum.

Operational risk losses: quantitative data starting from 2009

Operational losses from 2009 to end of 2017 per risk category [(*)] (in millions of EUR)

	Accounting Risk	Building Unavailability and Workplace Safety Event	Employment Practices and Relations Event	External Fraud Event	Failure in Other Principal Risk Processing	Financial Crime Event	Information and Cyber Security Event	Internal Fraud Event	Legal Event	Operations (Transaction Processing) Event	Regulatory Compliance Event	Security of People and Physical Assets Event	Systems and Data Integrity Event	Tax Event	Total
2009	1.9	0.0	0.0	25.9	1.4	0.1	0.0	0.5	0.4	22.8	7.2	0.0	1.9	4.2	66.3
2010	0.8	0.1	0.3	6.5	1.9	0.0	0.0	0.4	-3.3	6.1	23.3	0.1	0.0	0.0	36.3
2011	9.0	0.2	0.8	5.4	2.7	0.0	0.0	-0.1	0.7	7.5	-18.0	0.0	0.5	3.1	12.0
2012	1.1	0.0	0.7	10.5	2.1	0.0	0.1	0.5	-0.8	7.5	5.1	0.1	1.0	0.3	28.2
2013	0.3	0.0	1.6	12.1	2.6	0.0	0.2	0.2	0.1	3.2	0.4	0.0	2.2	-2.5	20.4 [(**)]
2014	0.0	0.1	1.3	6.4	0.6	0.0	0.0	0.1	0.3	5.3	-2.8	0.0	-0.3	-0.1	10.9
2015	0.1	0.0	1.1	4.8	1.8	0.0	0.0	0.1	0.6	4.6	3.4	0.0	0.5	0.0	17.1
2016	0.0	0.0	0.6	11.1	-0.2	0.0	0.0	0.0	0.1	-15.7	36.2	0.0	0.3	0.0	32.4
2017	0.0	0.1	0.9	2.9	1.4	0.0	0.0	0.2	0.0	3.4	0.7	0.0	0.1	1.0	10.6

(*) *Due to 2017 ORTP, a new taxonomy has been set-up. Figures above are based on this new taxonomy and are retrieved from the new operational risk system (Helios).*
(**) *Excluding a one-off legacy internal event within GBM.*

Event (financial impact) numbers per risk category [(*)]

	Accounting Risk	Building Unavailability and Workplace Safety Event	Employment Practices and Relations Event	External Fraud Event	Failure in Other Principal Risk Processing	Financial Crime Event	Information and Cyber Security Event	Internal Fraud Event	Legal Event	Operations (Transaction Processing) Event	Regulatory Compliance Event	Security of People and Physical Assets Event	Systems and Data Integrity Event	Tax Event	Total
2009	11	4	30	196	57	2	8	16	26	439	144	6	26	11	976
2010	8	1	48	181	56			17	63	315	144	6	14	14	867
2011	8	11	40	159	73			8	35	251	83	1	12	5	686
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	492 [(**)]
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

(*) *Due to 2017 ORTP, a new taxonomy has been set-up. Figures above are based on this new taxonomy and are retrieved from the new operational risk system (Helios).*

RWA and capital requirements related to operational risk to the end of 2017.

(in millions of euros)	RWAs	Capital requirements
RBWM	964	77
CMB	1,025	82
GBM	1,042	83
PB	65	5
Corporate Centre	288	23
Total	3,385	271

The year's highlights 2017

Reliability, strengthening and enhancement of internal control and operational risk framework continued in 2017 with notably:

- Operational risk transformation program ('ORTP'), and the implementation in 2017 of the operational risk management tool Helios. As a reminder, the main objectives of ORTP are to better prioritise risks and controls, strengthen the Operational Risk Management Framework, risk management through the 'Risk Appetite' definition and a simplification of operational risk processes, procedures and tools;
- the clarification of roles and responsibilities within the three lines of defence framework;
- the implementation of a new risk and control library and new risk prioritization matrix;
- the annual Risk and Control maps review owned by Businesses and functions relevant Heads by experts of the second line of defence. They are regularly updated according to material events occurred during the year and changes in the risk profile and regularly submitted to Operational Risk and BRCM forums or working Groups. BRCM teams annual control programmes are based on the Risk Map;
- strengthen coordination of Internal Control plan between Businesses and support functions;
- the improvement in the supervision and control of third party services;
- ongoing improvement of the Regulatory Compliance function in terms of framework and dedicated tools by aligning the organisation with the Group's;
- the further enhancement of controls in areas such as Regulatory Compliance and Financial Crime Compliance and Information Security ;
- the alignment of Operational risk management framework with other non-financial risk business areas across HSBC; including: AB&C, SOX , CMAT
- the strengthen of mandatory trainings related to Operational risk.

As part of the agreements signed between the HSBC Group, the US Department of Justice and the UK Financial Compliance Authority, an independent corporate compliance monitor was appointed in 2013 to yearly assess the effectiveness and efficiency of the group's programme and framework to fight financial crime and comply with international sanctions. As at the end of 2017, the US Department of Justice has recognised that HSBC had met the obligations under the DPA and, as a result, the agreement has expired.The expiration of the DPA is the result of all actions undertaken by HSBC to make the bank safer and stronger, as well as the bank's customers and the integrity of the financial system.This is however not the completion of the Global Standards programme that was launched in 2012. Given the challenges inherent in combating financial crime, including the sophistication of criminal networks that seek the circumvent bank's controls, further improvements will be implemented on a continuous basis.

Regarding the Regulatory Compliance function, the HSBC Group continued to implement the Conduct programme which sets forth the commitments made by HSBC with respect to the fair and just treatment of customers and the financial market integrity, including:

- providing clear, accurate, precise, and not misleading information to customers regarding the pricing, the characteristics of our products and services, as well as the associated risks;
- designing and offering competitive and accessible products which generate value for customers, match both their needs and risk profile, and avoid mis-selling;
- ensuring the management of such products and services in compliance with the highest regulatory standards in terms of fair and appropriate pricing, and of effective transparent and customer-oriented systems;
- ensuring compliance with the market integrity rules when performing the corresponding activities;
- maintaining a governance framework to effectively monitor the systems used to ensure the fair and just treatment of customers and the financial market integrity.

Since April 2017, the HSBC Business lines included the Conduct risk as a Business as usual mode in their day to day risk management. They have continuously strengthened the dedicated local governance, enhanced the key indicators , the training of the team and the follow up of the action plan designed during 2016 to achieve their objectives for conduct.

Awareness of all employees on risk management was continued in 2017 notably through mandatory staff e-learning trainings.

The set of procedures referred to in this report constitutes the basis of HSBC France's internal control system. Senior Management is responsible for overseeing the systems with support from the internal control function, particularly to ensure consistency.

Following major efforts throughout the HSBC France group, Senior Management now has the resources to comprehensively assess the quality of internal control.

Financial Crime Compliance & Regulatory Compliance

The level of inherent compliance risk remained high in 2017 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision from both the *Autorité de Contrôle Prudentiel et de Résolution ('ACPR')* and the *Autorité des Marchés Financiers ('AMF')*.

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.

Within the new Single Supervisory Mechanism, HSBC France is now under the supervision of the European Central Bank ('ECB'), for prudential matters since November 2014. Within this context, the ECB expressed interests toward the bank compliance procedures and controls frameworks.

In line with the Group heightened standards and organisation, HSBC France has continued to improve Financial Crime Compliance and Regulatory Compliance framework.

Organisational structure of the Compliance function

The HSBC France permanent control framework of non-compliance risks is held by two functions of experts, which are respectively led at HSBC France level by the Head of Financial Crime Compliance ('FCC') on the one hand, and the Head of Regulatory Compliance ('RC') on the other hand. Both functions cover the subsidiaries of HSBC France in their scope.

The FCC and RC Heads report hierarchically to the Chief Executive Officer and functionally to the Chief Risk Officer (Head of Permanent Control within the meaning of the Order of 3 November 2014) and the Heads of FCC and RC for the region.

The FCC and RC Heads report on the exercise of their 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 Order of 3 November 2014.

The RC and FCC functions are responsible for HSBC France's compliance control, within the meaning of Article 28 of the above-mentioned Order, and for coordinating the HSBC France group's compliance control system for their respective areas of responsibility. As such, they are responsible for ensuring the control, for all entities of the HSBC France group, of the non-compliance risk as defined by Article 10 p) of the Order of 3 November 2014 relating to banks' internal control systems.

The identification and monitoring of compliance with the regulations relating to certain specific areas are the responsibility, within the HSBC France group, of the second line of defence functions with appropriate expertise and resources (accounting standards, prudential ratios, control of major counterparty risks, recommendations relating to the security of information systems, etc.). The remit of the FCC and RC functions does not extend to the control of compliance with rules not belonging to the banking and financial sector (labour and social security law, regulations relating to the security of people and property, etc.), the monitoring of which comes under the responsibility of other second line of defence functions of HSBC France (e.g. Human Resources). However, they have to be informed, under the existing reporting or escalation procedures, by the departments concerned, of any problems identified and corrective measures implemented likely to have an impact on the non-compliance risk.

Regulatory compliance risk management

In 2017 HSBC France continued to improve the RC risk management framework through the implementation of global transformation programmes and by aligning its own organisation with the Group's. Such improvements include dedicating the Compliance teams for HSBC Assurance Vie. As a key function holder within the meaning of Article 44 of Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), the Head of Regulatory Compliance for HSBC Assurance Vie remains accountable to the ACPR for Financial Crime Compliance matters. Reporting mechanisms have been established to ensure the appropriate level of information of the key function holder. and for Global Banking & Markets with HSBC France to Regulatory Compliance exclusively.

The Regulatory Compliance function is in charge of the regulatory compliance risk control framework of the HSBC France group.

This department is divided into the following teams:

- RC teams for each global business line or function (Retail Banking & Wealth Management, Business Banking, Private Banking, Global Banking and Markets, Asset Management, Insurance, HSBC Operations, Services, Technology and Global Functions) which are in charge of advising and supporting their respective business/function line to achieve regulatory compliance;
- one RC Conduct Head who ensures support of the RC business teams, as well as of the first line of defence, in implementing the HSBC Group's Conduct policy;
- one Regulatory Compliance Monitoring & Testing ('RCMAT') team dedicated to RC risk controls to ensure the appropriate management of the RC risks by the global business lines/functions;
- the Business Management team which is responsible for the organisation of the RC function, for the coordination of the RC framework and for the implementation of projects;
- the Regulatory Affairs & Policies team which is in charge of the monitoring of regulatory developments, of the interactions with regulatory and supervising authorities regarding RC risks and of the drafting of policies to manage RC risks.

As at 31 December 2017, the RC function had 63.7 full-time equivalent employees.

The Head of RC carries out the roles of Head of Compliance for Investment Services ('RCSI') for HSBC France in respect of Articles 313-3 and 313-4 of the General Regulation of the AMF (French Financial Markets Authority). The different Heads of Compliance for Investment Services ('RCSI'), Heads of Compliance and Internal Control ('RCCI') for the legal entities of the HSBC France group come under the responsibility of the Head of RC.

RC Risk Management Framework

The RC function ('RC' and 'FCC') relies, in particular, on the legal monitoring of the Legal function in order to identify the modifications of legislative and regulatory texts as well as legal developments having an impact on the activities of the HSBC France group. Legal, RC and FCC have formalised their articulation and roles and responsibilities regarding regulatory change in 2016 in order to define responsibilities of identifying, analysing new regulation and conduct gap analysis and impact assessments.

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 continuous basis depending on trigger events.

The RC risks relating to the activities of HSBC France 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 and the protection of personal data, employees code of ethics, the prevention of conflicts of interest and compliance with the applicable rules in terms of cross-border marketing.

Following the proposed evolution of the RC function within the HSBC Group, several projects have been initiated or implemented in 2017 to improve the identification and the management of RC risks.

As such, following the implementation of the ORMF in 2016, RC risks appear more granularly on the bank's risk mapping, which enhances the RC function's ability to allocate resources based on the prioritisation of risks in the RC taxonomy.

RC now reviews such risks on a continuous basis based on established trigger events, instead of the previous review performed on an annual basis. This new model encourages a proactive RC risk management, and enables an easier adaptation to regulatory developments. All the risks of the RC Risk Taxonomy have been added to the Helios tool used by the first line of defence, to align with the tools used by the RC function. Such alignment ensures the consistency not only in the reporting to governance forums, but also in the risk management by the three lines of defence.

For all entities of the HSBC France group, the RC function also deployed the Regulatory Compliance Operating Model ('RCOM'), which is a single common set of procedures defined at Group level for all RC teams. The RCOM gathers all the activities performed by the RC function to ensure the appropriate management of the RC risk. These standardised procedures and processes for RC risk management facilitate the identification and distribution of roles and responsibilities for everyone within the RC function and the Group.

Staff training and awareness

Each year, the RC function, in conjunction with the Training Department, draws up a 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.

In 2017, training programmes were provided on the following themes either in the form of e-learning or classroom-based:

- training of all the bank's employees on the Conduct themes on customer protection and market integrity, as well as insider risks;
- training depending on the business line, on the following themes: training on the Conduct initiatives, and training on the upcoming regulatory developments ('MiFID II', 'IDD', 'PRIIPs' and 'PSD 2');
- classroom-based training for all or part of the RC teams: core report writing; information gathering and escalation; compliance officer development programmes; and the International Compliance Association foundation certificate on regulatory compliance.

Throughout 2017, HSBC France rolled out nine mandatory e-learning training programmes among all its employees – including two connected to RC risks. Each of these e-learning training programmes had to be completed within a prescribed time. The company's Management monitored the completion rate for these training programmes each month and took corrective measures, where applicable, enabling all employees to complete the programmes within short timeframes.

Compliance examination procedures and detection and prevention tools

The HSBC France 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 RC risks. These procedures and tools are the subject of regular updates and upgrades.

The Consilium tool, designed to improve the formalisation and the traceability of the advice deemed material that RC teams provide to the first line of defence, has been improved in 2017: RC team managers may now perform a quality assurance test on the advice provided, as well as on the subsequent implementation by the first line.

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 RCMAT team.

The reporting of issues and RC Risk Control Forums

The control compliance framework follows up potential identified issues, rely on existing reporting's procedures within RC Function, as well as on information regard to the supervisory bodies.

The reporting of issues

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 RC function, followed by regular monitoring of the actions implemented to rectify the situation, using a dedicated tool called IRIS (Integrated Regulatory Information System). Under the consolidated approach to non-compliance risks, the RC function also ensures centralised monitoring of Regulatory Engagements within entities of the HSBC France group regarding RC risks, mostly via the RC Regulatory Affairs and Policies team.

RC Risk Control Forums

The functioning of the framework and the main RC risks identified are reviewed through dedicated control forums, consisting of both RC representatives and operating managers. 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 France for risk management and permanent control (business lines of the HSBC France group also hold a similar committee). It has a decision-making power regarding the organisation of the risk control and management frameworks.

The quarterly Conduct and Regulatory Compliance Forum meets under the chairmanship of the Chief Executive Officer, and includes Executive Committee members who are Business Heads. The objective of this Forum is to provide information to Senior Management on the functioning of the risk control framework, on identified issues and the corresponding corrective measures undertaken.

Main topics raised during the Forum and brought to the attention of senior management include:

- the implementation by the business lines of the Conduct policy on customer protection and market integrity;
- the findings of the controls carried out by the RCMAT team, the status of its recommendations and their implementation by action owners in the first line;
- cross-business items of significance regarding Regulatory Compliance, whether for information, for action and/or for decision by senior management.

In the case of risks related to new products and services as well as significant modifications made to existing products, the majority of the businesses have specific bodies for the examination of products and services.

In HSBC France, new products and services meeting certain criteria are, in addition, subject to the prior approval of the New Products Committee, chaired by the Chief Executive Officer of HSBC France, and whose secretariat is managed by the Regulatory Compliance.

Financial Crime Risk Management

In 2017 HSBC France continued to improve its financial crime compliance framework through the implementation of global transformation programs and by aligning its own organisation with the Group's. Such improvements include the finalisation of the RC/FCC Line of Business ('LoB') teams with the nomination of Heads of FCC dedicated to the subsidiary HSBC Insurance and to the HSBC France GBM LoB.

The Financial Crime Compliance ('FCC') Team encompasses the Anti-Money Laundering ('AML') and Counter Terrorism Financing ('CTF'), Sanctions and Anti-Bribery and Corruption ('ABC') teams.

FCC is organised around:

- Expert central teams in the above-mentioned fields responsible for FCC Group policies and procedures, deployment in line with local regulatory requirements;
- AML-CTF and Sanctions Investigation Teams and Sanctions in line with local regulatory requirements;
- Other teams dedicated to each LoB (Retail Banking & Wealth Management, Corporate Market & Banking, Private Banking, Global Market & Banking, Asset Management and Insurance).
- One central team dedicated to Anti-Bribery and Corruption, and in line with provisions of the French Law *'Loi Sapin 2'* and French Anti-Corruption Agency ('AFA') guidelines;
- A Regulatory Affairs Manager for representative relations with the French Prudential Supervisory Authority 'ACPR' and the French Treasury Department *'Direction du Trésor'*, HSBC France within the French Banking Federation *Fédération Bancaire Française ('FBF')* and the Anti-Money Laundering Consultative Commission of the ACPR *'Commission Consultative Lutte Antiblanchiment de l'ACPR',* and for ensuring effective implementation of local regulatory constraints within HSBC France;
- A Monitoring and Testing ('M&T') team dedicated to compliance controls, to prevent financial crime risks in order to ensure control of non-compliance risks of LoB and functions.

As at 31 December 2017, the Financial Crime Compliance Function ('FCC') had 135 full-time equivalent employees.

The TRACFIN (French financial intelligence unit) *'declarants'* and *'correspondants'*, as well as the representatives of all the legal entities of the HSBC France group, come under the responsibility of the Head of AML France for HSBC France and its own subsidiaries.

System of control and identification of non-compliance risks

The FCC function relies, in particular, on the 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 the HSBC France group.

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. Non-compliance risk maps are regularly updated, every six months concerning the controls.

The non-FCC risks relating to the activities of HSBC France stem primarily from the following areas: Anti-Money Laundering, Counter Terrorism Financing, Anti-Bribery and Corruption, international financial sanctions respect.

In 2017 HSBC France continued to improve the Financial Crime System through the designed exercise 'Operational Effectiveness'. A common framework have been initiated for all of the entities belonging to HSBC Group, regarding Financial Crime, thus enabling a better harmonisation and efficiency of processes, tools, organisations and controls. This initiative will remain in 2018.

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 Risks.

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 France 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-FCC risks. These procedures and tools are subject of regular updates and upgrades.

As part of FCC developments, France has completed its system with the deployment of transaction monitoring scenarios through HSBC in France.

Control System

The FCC 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 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 FCC Compliance Monitoring and Testing ('T&M').

Issues reporting and the FCC Compliance Committee

The control compliance framework follows up potential identified issues, relying on existing reporting procedures within FCC Function, as well as on information in regard to the supervisory bodies.

Issues reporting

Issues identified when implementing compliance requirements are primarily subject to the elaboration of an issue report that must be raised to the appropriate level of FCC, and secondly to a regular follow-up of the remediation actions through the Integrated Regulatory Information System ('IRIS') tool.As part of a non-compliance risk consolidated approach, FCC Function ensures, furthermore, a centralised monitoring of any supervisory authorities contacts within group's entities of HSBC France.

The FCC Compliance Committee

The functioning of the framework and the main non-compliance risks identified are reviewed through dedicated control forums, consisting of both compliance function representatives and operating managers. These forums either have a decision-making role, in terms of managing the 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. The governance of FCC subjects relating to the fight against financial crime has evolved during 2017 with the implement of the Financial Crime Risk Management Committee ('FCRMC').

The FCRMC HSBC France is held with a monthly frequency, and is chaired by the Chief Executive Officer in presence of the Head of FCC France and the Head of each LoB. The FCRMC ensures monitoring of financial crime risks within the bank in France, and has a decision-making role to define priorities and ensure the robustness of the system. The FCRMC reports directly on the HBFR Executive Committee, as well as the European FCRMC allowing an efficient process of common subjects with other group entities. This HSBC's FCRMC is replicated for each LoB and HOST. FCRMC's LoB and functions are also held on a monthly frequency, and are chaired by each Heads of LoB and functions. Moreover these FCRMCs enable the management of financial crime risk at a more granular level.

Legal risks and litigation management

The HSBC France Legal Department ('DAJ') is responsible for HSBC France group's legal risks oversight as a second line of defence, and helps the various HSBC France group businesses and functions to prevent and control legal risk. The DAJ is in charge of litigation follow-up.

Prevention of legal risks

The DAJ is responsible for running the Legal and Tax Risks Forum which meets quarterly to examine situations likely to give rise to specific and significant legal or tax 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 DAJ participates in the Products Examination Committee, in the Operational Risks Forum, and in the Risk Management Meeting ('RMM') of the HSBC France group, and is involved in due diligence procedures for market operations, structured transactions and any new acquisition (or disposal) of an entity by the HSBC France group.

The DAJ 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 DAJ monitors other risks that might have a legal impact.

Control framework of legal risk

The Legal and Tax Risks Forum, chaired by the Chief Risk Officer, meets quarterly to ensure that the risks framework for legal and tax 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 France group 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 DAJ operates as first and second line of defence. A legal risks taxonomy has been defined to harmonise their identification and control. The DAJ is deeply involved in the review and control of the legal risks assessed by the businesses and functions in their RCAs.

Litigation monitoring with regard to HSBC France group entities

The situation of the risks arising from significant litigation in progress against the HSBC France group 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 DAJ. This committee decides upon the amount of the litigation provision to be charged or written back.

Cases in progress as at 31 December 2017 involving legal risks likely to have a significant effect on the financial situation of the HSBC France group 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 France, 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 France – 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 France was ordered to pay a fine of EUR 9.05 million. HSBC France, 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 France, 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 France, did infringe competition law. The amount of the fine against HSBC France is unchanged.

HSBC France has decided to appeal the Paris Court of Appeal's decision before the French Supreme court.

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 France 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 France.

Five notaries have been indicted for conspiracy to commit organised fraud, forgery and use of forgeries. HSBC France 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 France systematically files proceedings against those investors with loan repayments due but the hearings are 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.

European interbank offered rates investigations and litigation

See Note 30 of the consolidated financial statements with regard to other significant legal proceedings and regulatory matters relating to HSBC Group entities generally, including HSBC France.

Other regulatory, civil law or arbitration proceedings

To date, as far as HSBC France 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.

As reported in the French press, in April 2013 French judicial authorities opened an investigation against unnamed persons on the grounds of alleged illicit solicitation for banking and financial services, organised money laundering of funds obtained through illicit banking or financial solicitation, and organised money laundering for the purpose of tax evasion in the matter involving client data stolen from HSBC in Switzerland and relating to French residents. In November 2014, a member of the HSBC Group which is not a subsidiary of HSBC France, HSBC Private Bank Suisse SA, was formally placed under criminal investigation by magistrates in France. In April 2016, HSBC Holdings was informed that it has been placed under formal criminal investigation by the French magistrates in connection with the conduct of HSBC Swiss Private Bank in 2006 and 2007 for alleged tax offences. In November 2017, HSBC Private Bank Suisse SA resolved its French investigation, paying EUR 300 million. The investigations into HSBC Holdings plc were dismissed without further proceedings.

Tax risk

The HSBC France Tax Department ('DAF'), oversees as a second line of defence the HSBC France group tax risk.

This Department assists HSBC France group various businesses, along with its subsidiaries, in the prevention and the monitoring of tax risks.

Some tax positions are discussed with the tax authorities.

Prevention of tax risks

DAF attends the Legal and Tax Risks Forum, which is run by the DAJ, and also the Product Examination Committee, and the Committees related to Internal Control and Operational Risk and Wealth Management Oversight Committee ('WMOC').

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 France group. It defines, for all the entities of HSBC France group, 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'). It is specifically about the documents related to the tools and accounting systems and interface, accounting schemes, certification of accounts and operational terms of audit trail use.

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 outcome of, essentially, the French Commercial Law, French accounting standards and IFRS.

The enforcement of IFRS by all the entities of HSBC France group is also in compliance with the accounting principles of Group HSBC.

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 the financial data in comparison with those of the previous year.

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 France 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 reporting and analysis of the P&L and Balance Sheet;
- The financial Internal Control Sarbanes-Oxley ('SOX').

According to the HSBC Group, HSBC France prepares, on a monthly basis, a certificate of accounting reconciliations which is addressed to the HSBC Group Europe Finance Department. This certificate, that attests the justification of Balance Sheet and Off Balance-Sheet, represents the synthesis of certificates of accounting reconciliations transmitted by the heads of accounting and financial reporting of HSBC France 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 Business Risk & Control Managers ('BRCM') of the entities of HSBC France 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 accounting and business finance teams. The Management Reporting and Analysis department prepares on a monthly basis the management reportings; 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 reportings are sent to the Regional Office of HSBC Group, the General Management, the Heads of businesses and functions, as well as the CFO.

The financial reportings are presented monthly by the CFO to the Executive Committee of HSBC France Group and quarterly to the Audit Committee, the Risk Committee and the Board of HSBC France. 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 Group HSBC, HSBC France 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 an active 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 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 France 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 France to HSBC Holding, duly signed by the CEO, the CFO and the Head of Internal Audit, attesting the effectiveness of internal financial controls.

IT Systems Risk

IT risk management

IT risk has consequences mainly on four levels:

- operational: even if the activity is not directly based on an IT process, closure of the IT service generally results in a shut-off or slowdown in the bank's production;
- financial: IT expenditure (hardware, software, know-how) constitutes a significant proportion of the bank's assets;
- legal: regulations require oversight of the security of the IT system *(Loi Informatique et Libertés, LCEN, SOX Act, LSF, etc.);*
- projects: wrong design or mismanagement of projects could lead to serious consequences and have significant impacts on operations in the future.

IT risks are assessed using the HSBC Group's methodology. Control of these risks is based on a governance and organisational structure meeting Group standards and best practice guidelines ('CMM', 'ITIL', 'COBIT') used in the financial services and banking industry.

Missions and coverage

HOST Technology function is part of HSBC Operations, Services and Technology ('HOST') and relies on different structures to support the IT services delivered to the HSBC France businesses and support functions:

- IT Architecture;
- IT Infrastructure Delivery ('ITID') Structure in charge of the implementation and maintenance of systems and infrastructures on which are hosted the banking functionalities rolled out within the businesses and functions of HSBC France;
- Application Development & Maintenance ('ADM') Structure in charge of the development and maintenance of intra group or third parties software solutions for CMB, Finance, GBM, Information Service, Payment and PCM, RBWM, Risk and Compliance and Modernisation project;
- IT Business Management structure within Information Technology department which is in charge, among others, of managing major change programmes within HSBC France;
- Cyber Security in charge of monitoring the infrastructures and applications security risks.

The missions of the IT function are covered by the following HSBC Group manuals:

- Global Standard Manual ('GSM').
- HOST Functional Instructions Manual (HOST FIM and RISK FIM.

The IT function aims to implement an IT risk reduction strategy that is consistent with the information system strategy. This one also aims to meet the information system's confidentiality, integrity and availability requirements with respect to the bank's businesses. This IT function monitors risks following this typology of risks:

- Systems and Data integrity;
- Information and Cyber security;
- Building unavailability and workplace safety;
- Regulatory compliance;
- Access management;
- Application security;
- IT service resilience;
- Data Centre loss plan;
- Vendor and Third-party risk management;
- Project Management.

The IT risks control framework

The identification of all IT risks and control is performed in accordance with the Group IT Risk and Control Library ('RCL') methodology. IT risk structures are identified around four mapped departments.

Each IT risk cartography is revised at least annually and updated so as to reflect the main risk profile changes such as:

- Global risk level assessed by the IT function;
- internal or external incidents and/or significant regulatory changes;
- significant changes or new processes or systems relating to the IT function;
- Identification of a significant control issue through processes such as follow up and controls monitoring, SOX or issues raised by the regulator, the internal or external auditors.

For each significant IT risk identified, the IT functions identify and document key controls so as to mitigate the risk. In addition, a description of the current monitoring for each key control is identified.

The IT permanent control information (results of control reviews, progress with the control plan, change in risk reviews and control assessments, any failures and remedial actions taken) are communicated monthly to HOST' governance committee (ExCo). Permanent control work and principal results are also reported monthly in the HOST Risk Management Meeting ('HOST RMM').

In addition, to comply with the US Sarbanes-Oxley Act, the HSBC Group has set up a permanent control documentation and assessment framework, coordinated by the Finance Department, relating to the IT processes involved in preparing financial statements.

Risk monitoring

The HOST Technology functions prepare a control plan on an annual basis. This plan sets out the key control monitoring activities that are performed annually. Their monitoring is performed by the HOST Technology functions through a detailed controls assessment, key indicators monitoring or thematic reviews.

The results of risk assessments and controls form the basis of the annual control plan. It is approved annually.

Any major IT problem identified through control monitoring is reported to HOST Technology permanent control management and HSBC France's permanent control supervision department (Operational Risk team).

Security risk

Security risk issues are managed at Group level by Global Security Risk. Security Risk in France takes functional direction from Security Risk in Europe. This unit has responsibility for information, contingency, insider risks and physical risks. This enables management to identify and mitigate the consequences of these and other non-financial risks to its business lines across the jurisdictions in which the bank operates.

- The Information Security Risk sub-function is responsible for defining the strategy and policy by which the organisation protects its information assets and services from compromise, corruption or loss, whether caused deliberately or inadvertently by internal or external parties. It provides independent advice, guidance and oversight to the business about the effectiveness of information security controls and practices in place or being proposed.
- The Business Contingency Risk sub-function is responsible for ensuring that the group's critical systems, 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 pre-planning for recovery, seeking to minimise the adverse effects of major business disruption, either globally, regionally or within country, against a range of actual or emerging risks. The pre-planning concentrates on the protection of customer services, the bank's staff, revenue generation, the integrity of data and documents and meeting regulatory requirements. Each business has its own recovery plan, which is developed following the completion of a business impact analysis. This determines how much time the business could sustain an outage before the level of losses becomes unacceptable, i.e. its criticality. These plans are reviewed and tested every year. The planning is undertaken against Group policy and standards and each business confirms in an annual compliance certificate the adherence to these plans. Should there be exceptions, these are raised and their short-term resolution is overseen by the business continuity teams. It is important that plans are dynamic and meet all risks, particularly those of an emerging nature such as possible pandemics and cyber attacks. The ORMF is used to measure the resilience of the bank to these risks, and is confirmed to the HSBC France risk committee. Resilience is managed through various risk mitigation measures. Amongst these include the requirement to agree with HSBC Operations, Services and Technology ('HOST') acceptable recovery times of systems, ensuring that the bank's critical buildings have the correct infrastructure to enable operations to continue and requiring the bank's critical vendors to have their own recovery plans.
- The Insider Risk sub-function is responsible for ensuring compliance with the Group's standards of integrity and so minimise the risk of internal criminal activity or the leakage of confidential data. Insider Risk comprises the risk implicit in actions by employees, contractors and others (such as third party vendors), with authorised access to sensitive information, our systems, our premises, our infrastructures, and to our money, that cause reputational, regulatory or operational harm.
- The Physical Security sub-function develops practical physical, electronic and operational counter-measures to ensure that the people, property and assets managed by HSBC France are protected from crime, theft, attack and groups hostile to HSBC's interests.

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 France's Audit and Risk Committees objective assurance on risk management and the internal control system implemented by the bank. Periodic controls of HSBC France 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') comprises the third line of defence, coming successively behind the businesses and functions' own first line of defence (Risk Owners, Control Owners, and Business Risk and Control Managers) and the second line of defence teams (Operational Risk and Risk Stewards: Compliance, Legal, Security, Human Resources etc.). 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 and, 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 company, as well as to companies under exclusive or joint control.

Global Internal Audit ('GBL INA') is comprised of approximately 15 global audit teams whose role is to provide expert coverage of HSBC Group's businesses and functions.

These specialist audit teams are consolidated and comprise amongst others, five regional audit teams (Europe, Middle East and North Africa, United States, Asia Pacific, and Latin America and Canada) along with country audit teams, including Global Internal Audit France ('INA FRA') whose responsibility is to cover HSBC's risks in France.

HSBC France's 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, Retail Banking and Wealth Management, Commercial Banking, banking operations, IT and strategically important projects. INA FRA budgeted headcount was 32 members in 2017, mainly split between business auditors and IT auditors;
- the global teams, specialised by business and/or function, based principally in London and Hong Kong, whose areas of involvement depend on the following functional structure:
  - Europe, Middle-East and GBM Audit, responsible for auditing Global Banking and Markets and the European and Middle-Eastern regions;
  - RBWM and GPB Audit and LAM and Canada Audit, responsible for auditing Private Banking, Retail Banking and Wealth Management, Insurance and Pension risks, Asset Management and the system for protecting natural person clients, as well as the Latin America region and Canada;
  - Risk and Finance Audit, responsible for auditing Wholesale and Retail credit risk, model and market risks, legal and compliance risks, management of operational risk, physical and information security, fraud risk, capital adequacy and liquidity requirements, asset and liability management, accounting, management control and tax, moreover, this team is also responsible for auditing the risk to deliver unfair customer outcomes and to verify that the actions are consistent with the values of the HSBC Group;
  - CMB and Technology Services and Functions Audit, responsible for commercial banking risks and the main central functions and banking production, third-party risks, IT and communication infrastructures and systems and their security, data management, IT application developments, IT projects and organisational changes, in support of the business audit teams.

Beyond the functional and regional organisation described above, Global Audit relies on local resources in numerous countries.

Country audit teams 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 practice.

Periodic controls on HSBC in France in 2017 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 31 August 2016 which structures the roles, responsibilities and coverage model.

There are four (this number will soon be brought up to five) francophone members of the global audit teams based in Paris, primarily assigned to audits in France within Global Banking and Markets.

The scopes of local audit and global audit converge and are consolidated in the HSBC France audit plan. In all cases, as defined in the aforementioned French ministerial order of 3 November 2014, all audits in France are managed in coordination with the Head of HSBC France Internal Audit (Inspector General), who oversees their consistency and efficiency.

HSBC France's Inspector General, Head of INA FRA reports to the Head of 'Europe, Middle-East and GBM Audit' and HSBC France's Audit Committee, and administratively to the HSBC France Chief Executive Officer. Since early 2017, in accordance with the Solvency II requirements, one independent Senior Audit Manager in charge of periodic control for the insurance subsidiary of HSBC France 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.

After significant investment to enhance the audit methodology during the previous years, the main challenge of GBL INA in 2017 was to implement the new Auditing, Reporting and Management Information System ('ARaMIS') to manage more consistently all the audit activities. The new functionalities are mainly related to the following aspects:

- the audit universe that includes all the audit entities monitored by GBL INA and the frequent assessment of the different risks for these entities;
- the audit plan that is defined for a given year based on the audit needs identified during the analysis of the audit universe and the external events detected with the continuous monitoring of business and regulatory developments.

AIM includes application guidance to put into practice the audit methodology in ARaMIS.

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 in France, in particular:

- the Inspector General participates in the HSBC France Executive Committee, Risk Management Meeting ('RMM'), Operational Risk meeting, Financial Crime Risk Management Committee ('FC RMC'), Regulatory Compliance Committee and the HSBC France Audit Committee and those of its subsidiaries;
- 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;
- 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 Regulatory Compliance and the Head of Operational Risk always receive a copy of all audit reports.

Audit reports relating to HSBC France subject to an adverse rating are routinely presented and commented on to HSBC France's 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 France 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.

Human Resources

Risks relating to human resources management and control system

At the end of 2017, the main HR risks with potentially significant impacts on the operation of HSBC France were as follows:

- psycho-social risks created by a poor working environment, inadequate working conditions, insufficient human resources or inadequate managerial practices;
- 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 France's Human Resources Department is involved in the second line of defence of the Human Resources ('HR') risk of the HSBC France group.

For this purpose, it has mapped the transverse risks relating to HR as well as the HR function risks. This document 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 Committee.

The HR Risk Forum was set up in 2009. It meets quarterly to review the continuing appropriateness of 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 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 France People Committee

The People Committee supports Head of HR and local 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 consequence management process, statistics on turnover, results of Global People Survey ('GPS') and corresponding action plans);
- Identification of local talented employee, according to the Group Talent Pool process and elaboration of the succession plan for local positions;
- 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 GCB0-3 career movements;
- Approval of minutes and review of previous People Committee actions plans.

In term of remuneration, the People Committee 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, 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 French teams on the basis of the overall performance of each business and of the relative performance of French 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) before submitting them to the appropriate HSBC France and HSBC Group decision-making bodies.

It reviews the businesses' 20 highest earners (except the members of the People Committee) in conjunction with the HSBC France and HSBC Group's decision-making bodies and the global businesses lines.

It ensures that proposed individual remuneration packages take account of any 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.

Role of the Remuneration Committee

On the basis of the remuneration policy papers prepared by the People Committee, 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.

It also reviews the remuneration paid to Executive Directors and submits its recommendations to the Board of 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.

Thus, from 2009, situations of breach of compliance and infringements of internal rules, identified by the Risk and Compliance functions, have been taken into account when awarding variable remuneration.

To strengthen the Risk and Compliance functions, throughout the year and especially during the annual salary review process when individual variable remuneration is decided, 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 employment law 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;
- 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.

In addition, Global Business/Global Function Consequence Management Committees, attended by the Head of Business or Function concerned, the Chief Risk Officer, the Head of Regulatory Compliance, the Head Financial Crimes Compliance, the Head of HR, the Head of Performance and Reward and the HRG concerned, are held during the pay review process. For each identified breach case, and even more for the ones identified as high or very high the Committee decides:

- the potential adjustment on performance rating;
- the impact on the variable remuneration of the employees concerned;
- whether, regarding the severity of the breach, the 'malus' rule needs to be applied, cancelling some or all previously awarded and unvested shares.

After these decisions, the HR Department checks that any adjustments validated by the Committee is duly uploaded into the Group Pay Review System ('GPRS') with the appropriate rational.

If the proposed variable remuneration requires it (above a certain threshold), Risk and Compliance functions may be asked to contribute to the preparation of a business case setting out the compliance breach and/or internal rule breach and its impact on variable remuneration.

The Human Resources Department notifies the People Committee and the RemCo 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 in France is covered through Global insurance programmes arranged by HSBC Holdings plc for major risks (bankers' risks, fraud, cyber, professional liability, directors' and officers' liability).

Amounts of cover are determined on an 'extreme' loss basis with significant impacts on the Group activities and retention amounts allow a robust risk Management policy.

Master programmes are arranged centrally at a group level with local policies issued where needed, notably in regards of property damage and Business interruption insurance. Premises are covered for their reinstatement value. Risk visits are planned on a regular basis by insurers' engineers.

HSBC France also arranges regulatory required local insurance programmes, such as, civil liability for licensed activities third-party liability motor insurance, etc.

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 France and HSBC Holdings plc balance sheets.

The total amount of insurance premiums paid in 2017 represents 0.31 per cent of HSBC France net operating income.

Major programmes, involve the HSBC Group reinsurance captive's participation.

Broker, insurers and partners are chosen in accordance with a strict selection and solvency supervision policy.

Sustainability and climate change risk

HSBC 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.

Potential environmental and social impacts of customers conducting business in one of the sectors related to HSBC's policies are assessed by executives from Global Banking and Markets and Commercial Banking and by HSBC's designated Sustainability Risk Managers from Risk for high risks transactions in project finance and lending.

HSBC's policies cover agricultural commodities, chemicals, defence, energy, forestry, freshwater infrastructure, mining and metals, World Heritage Sites and Ramsar wetlands. HSBC has applied the Equator Principles since they were first developed in 2003, including the latest version (EP3) since 2014.

These risks are monitored monthly by HSBC France Risk Management Committee.

Assessment of HSBC France'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 France has been assessing since 2016, how aligned its financing portfolio is with the International Energy Agency's 2°C scenario, on a sector basis. HSBC France 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.

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 and controls 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 Financial Crime Compliance Committee covers the topics related to the fight against financial crime and money laundering;
- 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 BRCM Meeting is in charge of the operational, regulatory and compliance risks.

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 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 France's bancassurance model

We operate 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 Retail Banking & Wealth Management and Commercial Banking through their branches and direct channels.

The insurance contracts HSBC France 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 France 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.

HSBC Assurances Vie 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 Committee.

In addition, local subsidiary's ALCO monitors and reviews the duration and cash flow matching 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

The HSBC France group's 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 the HSBC Group Insurance must maintain to meet insurance liabilities. These requirements complement the HSBC Group-wide policies.

The following table analyses the assets held in HSBC France'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 2017			
	Linked contracts	**Non-linked contracts**	**Other assets**	**Total**
	€m	**€m**	**€m**	**€m**
Financial assets designated at fair value				
– debt instruments	**–**	**769**	**–**	**769**
– equity instruments	**57**	**6,881**	**530**	**7,468**
Total	**57**	**7,650**	**530**	**8,237**
Financial investments – available for sale				
– debt instruments	**–**	**11,295**	**1,338**	**12,633**
– equity instruments	**–**	**–**	**–**	**–**
Total	**–**	**11,295**	**1,338**	**12,663**
– Derivatives	**–**	**107**	**34**	**141**
– Other financial assets	**–**	**1,884**	**(206)**	**1,678**
Total	**57**	**20,935**	**1,696**	**22,688**

	31 Dec 2016			
	Linked contracts	Non-linked contracts	Other assets	Total
	€m	€m	€m	€m
Financial assets designated at fair value				
– debt instruments	–	748	–	748
– equity instruments	57	5,777	419	6,253
Total	57	6,525	419	7,001
Financial investments – available for sale				
– debt instruments	–	12,049	1,053	13,102
– equity instruments	–	–	–	–
Total	–	12,049	1,053	13,102
– Derivatives	–	133	44	177
– Other financial assets	–	1,749	(192)	1,557
Total	57	20,456	1,324	21,837

Approximately 59 per cent of financial assets were invested in debt securities at 31 December 2017, with 33 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 are lower than the investment returns implied by the guarantees payable to policyholders.

The income from the insurance and investment contracts with discretionary participation 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 collateral for 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;
- for new products with investment guarantees, considering the cost when determining the level of premiums or the price structure;
- 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
- exiting, to the extent possible, investment portfolios whose risk is considered unacceptable.

The French insurance manufacturing company monitors exposures against mandated limits regularly and reports these quarterly to HSBC Group Insurance. Exposures are aggregated and reported on a quarterly basis to senior 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 investment 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 it will not be adequate to calculate the impact of an important movement using only the impact of a small movement. 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 and 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 insurance manufacturing subsidiaries. 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 2017	31 Dec 2016
	€m	€m
+ 100 basis points parallel shift in yield curves	**13**	49
- 100 basis points parallel shift in yield curves	**(33)**	(109)
10 per cent increase in equity price	**15**	13
10 per cent decrease in equity price	**(14)**	(13)
50 basis points increase in credit spread[1]	**27**	52
50 basis points decrease in credit spread[1]	**(22)**	(59)

1 *PVIF sensitivity after tax*

The decrease of the PVIF sensitivity to interest rates and credit spread stresses is mainly due to the improvement of market conditions (i.e. increase of the yield curve and equity index partly offset by the shrinking of credit spreads). The Q3 evolutions (notably the split of lapse rates by type of supports) also lead to decrease of the PVIF's sensitivities to the market risks.

There are scenarios focusing on all the negative sensitivities presented in the table above. The amount of PVIF can thus vary significantly in certain exceptional circumstances.

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 internationally recognised credit ratings 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 (78).

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. 85 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 2017		
	Strong	**Good/Satisfactory**	**Total**
Financial assets designated at fair value	**684**	**85**	**769**
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**684**	**85**	**769**
Financial investments – available for sale	**10,722**	**1,911**	**12,633**
– treasury and other eligible bills	**–**	**–**	**–**
– debt securities	**10,722**	**1,911**	**12,633**
Total	**11,406**	**1,996**	**13,402**

	31 Dec 2016		
	Strong	Good/Satisfactory	Total
Financial assets designated at fair value	649	99	748
– treasury and other eligible bills	–	–	–
– debt securities	649	99	748
Financial investments – available for sale	10,878	2,224	13,102
– treasury and other eligible bills	–	–	–
– debt securities	10,878	2,224	13,102
Total	11,527	2,323	13,850

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 2017	**€m**	**€m**	**€m**	**€m**	**€m**
Non-linked insurance[1]	**1,581**	**7,375**	**7,161**	**5,697**	**21,814**
Linked life insurance[1]	**1**	**10**	**12**	**16**	**39**
Total	**1,582**	**7,385**	**7,173**	**5,713**	**21,853**

	Expected cash flow (undiscounted)				
	< 1 year	1-5 years	5-15 years	> 15 years	Total
31 Dec 2016	€m	€m	€m	€m	€m
Non-linked insurance[1]	1,544	6,955	6,629	6,134	21,262
Linked life insurance[1]	2	13	12	13	40
Total	1,546	6,967	6,641	6,147	21,302

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 2017 despite the increase in liabilities to policyholders on these contracts to EUR 21.87 billion (2016: EUR 21.32 billion).

A principal risk faced by the HSBC French Insurance business is that, over time, the cost of acquiring and administering a contract, claims and 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

(in millions of euros)	At	
	31 Dec 2017	31 Dec 2016
	€m	€m
Insurance contracts with DPF[1]	**—**	—
Credit Life	**39**	40
Annuities	**70**	67
Term assurance and other long-term contracts	**11**	13
Non-Life insurance	**—**	—
Total non-linked insurance[2]	**120**	120
Life linked	**57**	57
Investments contracts with DPF[1,3]	**21,695**	21,142
Liabilities under insurance contracts	**21,872**	21,319

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 (18).

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 France in 2017.

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 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.

As at the end of 2017, the US Department of Justice has recognised that HSBC had met the obligations under the DPA and, as a result, the agreement has expired. The expiration of the DPA is the result of all actions undertaken by HSBC to make the bank safer and stronger, as well as the bank's customers and the integrity of the financial system. We have taken measures to address the requirements of the US DPA and enhance our AML-CTF and, sanctions compliance frameworks. These measures have also enhanced our reputational risk management. For further details, see 'Areas of special interest' on page 66.

Capital and leverage management

Capital Management approach and policy

Common equity Tier 1 ratio as at 31 December 2017 stands at 13.1 per cent based on a transitional view, and decreased by 0.1 per cent compared to its 31 December 2016 value. In a fully-loaded view, the common equity tier 1 ratio as at 31 December 2017 stands at 13.2 per cent.

Total capital ratio as at 31 December 2017 stands at 14.1 per cent based on a transitional view, and increased by 0.9 per cent compared to its 31 December 2016 value. In a fully-loaded view, the total capital ratio as at 31 December 2017 stands at 14.6 per cent.

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

HSBC France manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2017, HSBC France complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, the bank 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.

HSBC France's capital management policy is under-pinned by the capital management framework, which is embedded within Regional and Group's processes, and within the Bank's Annual Operation Plan, as validated by the Board of Directors. This framework enables HSBC France to manage its capital in a consistent manner. The Internal Capital Adequacy Assessment Process ('ICAAP') incorporates different assessments methods of the requirements related to the management and allocation of capital within HSBC France.

Capital Measurement

HSBC France is supervised by the Joint Supervisory Team of the ECB and the ACPR. The Joint Supervisory Team sets HSBC France'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 IV legislations implemented Basel III in the EU.

Regulatory Requirements

Under CRD IV, as implemented under ECB super-vision, banks are required to meet in 2017 a minimum CET1 ratio of 5.75 per cent of RWAs that include:

- A basis requirement of 4.5 per cent;
- A Capital Conservation Buffer of 1.25 per cent.

This ratio will reach 6.375 per cent on 1 January 2018, in line with the step-up of the Capital Conservation Buffer to 1.875 per cent.

Banks also have to respect a minimum Tier 1 ratio of 7.25 per cent of RWAs, increasing to 7.875 per cent from 1 January 2017, and a total capital ratio of 9.25 per cent of RWAs increasing to 9.875 per cent from 1 January 2018. In the context of the SREP, HSBC France Pillar II Total Capital Ratio requirement that was 11.88 per cent in 2017 has been set at 12.63 per cent, for 2018.

Regulatory Capital

HSBC France's capital base is divided into three main categories, namely Common Equity Tier 1, Additional Tier 1 and Tier 2, depending on the maturity, and on the loss absorbency.

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 IV/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, negative amounts resulting from the calculation of expected loss amounts under IRB, Holdings of Common Equity Tier 1 securities of financial sector entities are deducted from additional Tier 1 capital, up to the amount that exceeds a regulatory-defined threshold.

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 limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total on- and weighted off-balance sheet exposures, and further netting possibilities on market instruments. 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 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to increase market transparency by requiring banks to publish, at least annually, wide-ranging information on their risks and capital, and how these are managed. Pillar 3 Disclosure is published on HSBC's website, www.hsbc.com, under 'Investor Relations'.

Key capital numbers – (CRD IV transitional)

	At 31 Dec	
	CRD IV Phased-in	
	2017	2016
	€m	€m
Capital resources		
CET1	**4,644**	4,739
Tier 1 Capital	**4,791**	4,739
Total Capital	**5,000**	4,739
Risk weighted assets	**–**	
Counterparty Credit Risk	**22,446**	20,865
Credit Risk[1]	**3,036**	3,707
Market Risk	**5,188**	7,907
Operational Risk	**3,385**	3,537
Basel 1 floor impact	**1,324**	–
Total risk weighted assets	**35,379**	36,016
Capital ratios (%)		
CET1	**13.1%**	13.2%
Total tier 1	**13.5%**	13.2%
Total Capital	**14.1%**	13.2%

1 *Risk-weighted assets for default funds had been reported under non-counterparty credit risk in the* Annual Report and Accounts 2017 *and are now reported under the counterparty credit risk section.*

Own funds disclosure

Ref*		At 31 Dec 2017 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	**353**
	– ordinary shares	**16**
2	Retained earnings	**3,500**
3	Accumulated other comprehensive income (and other reserves)	**1,483**
5	Transitional adjustments due to additional minority interests	**7**
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**60**
6	**Common equity tier 1 capital before regulatory adjustments**	**5,403**
	Common equity tier 1 capital: regulatory adjustments	**–**
7	Additional value adjustments	**51**
8	Intangible assets (net of related deferred tax liability)	**(308)**
11	Fair value reserves related to gains or losses on cash flow hedges	**70**
12	Negative amounts resulting from the calculation of expected loss amounts	**(98)**
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**113**
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(528)**
22	Amount exceeding the 15% threshold	**(59)**
28	**Total regulatory adjustments to common equity tier 1**	**(759)**
29	**Common equity tier 1 capital**	**4,644**
	Additional tier 1 ('AT1') capital: instruments	**–**
30	Capital instruments and the related share premium accounts	**200**
36	**Additional tier 1 capital before regulatory adjustments**	**200**
	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	**(53)**
43	**Total regulatory adjustments to additional tier 1 capital**	**(53)**
44	**Additional tier 1 capital**	**147**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,791**
	Tier 2 capital: instruments and provisions	**–**
46	Capital instruments and the related share premium accounts	**576**
51	**Tier 2 capital before regulatory adjustments**	**576**
	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)	**(367)**
57	**Total regulatory adjustments to tier 2 capital**	**(367)**
58	**Tier 2 capital**	**209**
59	**Total capital (TC = T1 + T2)**	**5,000**
60	**Total risk-weighted assets**	**35,379**
	Capital ratios and buffers	**–**
61	Common equity tier 1	**13.1%**
62	Tier 1	**13.5%**
63	Total capital	**14.1%**
64	Institution specific buffer requirement	**1.3%**
65	– capital conservation buffer requirement	**1.3%**
68	Common equity tier 1 available to meet buffers[1]	**5.8%**
	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)	**8**
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)	**1,036**
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**225**

* *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.*

In May 2017, HSBC France has performed intragroup Additional Tier 1 and Tier 2 instruments issuances, respectively for EUR 200 million and EUR 300 million. HSBC Bank plc is the counterparty of these instruments. Alongside, HSBC France has released an exceptional dividend of EUR 300 million to HSBC Bank plc. These operations have strengthened HSBC France's total capital base and adjusted its structure to its business strategy and applicable requirements.

Total capital as at 31 December 2017 stands at EUR 5,000 million based on a transitional view, and increased EUR 261 million compared to its 31 December 2016 value, mostly as a result of the Additional Tier 1 and Tier 2 instruments settlement in May 2017, and profit generation.

The main prudential adjustments applied to Accounting Equity to CET1 Regulatory Capital are mainly:

- The exclusion of certain reserves, including Cash Flow Hedge reserves;
- The exclusion of the stock value of credit spread on own debt under fair value option;
- The inclusion of Prudent Valuation Adjustment ('PVA');
- The deduction of Goodwill and Intangible Assets;
- The deduction of expected losses to the extent that they exceed total accounting impairment allowances;
- The deduction of the holdings of material CET1 participation within other financial sector institution that exceed a threshold of 10 per cent of the CET1 excluding this deduction.

On a transitional approach, transitional adjustments are also applied, notably:

- Phase-in of unrealised gains on AFS securities;
- Phase out of non-banking minority interests.

Pillar 1 Overview

	RWAs		Capital required[1]	
	2017	2016	**2017**	2016
	€m	€m	**€m**	€m
Credit risk[2,3]	**22,446**	20,865	**1,796**	1,669
Counterparty credit risk	**3,036**	3,707	**243**	297
Market risk	**5,188**	7,907	**415**	633
Operational risk	**3,385**	3,537	**271**	283
Basel 1 floor impact	**1,324**	—	**106**	—
At 31 Dec	**35,379**	36,016	**2,831**	2,882

RWAs by global business

	RWAs		Capital required[1]	
	2017	2016	**2017**	2016
	€m	€m	**€m**	€m
Retail Banking and Wealth Management ('RBWM')	**4,615**	4,905	**369**	392
Commercial Banking ('CMB')	**11,133**	10,383	**891**	831
Global Banking and Markets ('GB&M')	**16,713**	19,098	**1,337**	1,529
Global Private Banking ('GPB')	**985**	830	**79**	66
Corporate Centre	**609**	800	**49**	64
Basel 1 floor impact	**1,324**	0	**106**	0
At 31 Dec	**35,379**	36,016	**2,831**	2,882

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.*
3 *Risk-weighted assets for default funds had been reported under non-counterparty credit risk in the* Annual Report and Accounts 2016 *and are now reported under the counterparty credit risk section.*

Risk-weighted assets Variation Drivers at 31 December

	At 31 Dec CRD IV Fully-Loaded						
	2017	2016	Variation	Volume effect	Parameter effect	Perimeter effect	Methodological effect
	€m	€m	€m	€m	€m	€m	€m
Risk-weighted assets	**35,379**	36,016	(637)	(225)	1,216	—	(1,628)
Counterparty Risk (incl. Credit Valuation Adjustment)	**3,036**	3,707	(671)	(498)	(303)	—	130
Credit risk (incl. Default funds)	**22,446**	20,865	1,581	1,044	195	—	342
Market Risk	**5,188**	7,907	(2,719)	(619)			(2,100)
Operational Risk	**3,385**	3,537	(152)	(152)	—	—	—
Basel 1 floor impact	**1,324**	—	1,324		1,324		

RWA decreased by EUR 637 million on a transitional view, mainly driven by the decrease in Market Risk-Weighted Assets related to a new VaR model implementation. This new model aims at ensuring a better risk capture. On Credit Risk, main driver was a combined effect of the increase in activity and of an improvement in risk parameters. Counterparty Risk decrease was mostly driven by a volume effect, while for Operational Risk the variation was fully carried by volume effect, as these risk-weighted assets are computed under standardised approach.

Leverage Ratio at 31 December

	At 31 Dec	
	CRD IV transitional	
	2017	2016
	€m	€m
Tier 1 Capital	**4,791**	4,739
Leverage Exposure	**130,580**	118,221
Leverage ratio	**3.7%**	4.0%

Tier 1 capital inflated by EUR 52 million to EUR 4.791 million during 2017. The Leverage exposure increased by EUR 12 billion to EUR 131 billion, mainly due to the increase on customers' loans within the balance sheet.

Consolidated financial statements

Notes on the Financial Statements

Consolidated income statement for the year ended 31 December 2017

	Notes	31 Dec 2017 €m	31 Dec 2016 €m
Net interest income		**1,048**	1,218
– interest income		**1,568**	1,605
– interest expense		**(520)**	(387)
Net fee income		**574**	648
– fee income		**864**	898
– fee expense		**(290)**	(250)
Net trading income		**297**	516
– trading income excluding net interest income		**408**	504
– net interest income on trading activities		**(111)**	12
Net income/(expense) from financial instruments designated at fair value		**609**	258
– changes in fair value of long-term debt and related derivatives		**(1)**	(16)
– net income/(expense) from other financial instruments designated at fair value		**610**	274
Gains less losses from financial investments		**107**	121
Dividend income		**5**	2
Net earned insurance premiums	2	**1,861**	1,763
Other operating income		**8**	(11)
Total operating income		**4,509**	4,515
Net insurance claims incurred, benefits paid and movement in liabilities to policyholders	2	**(2,602)**	(2,198)
Total operating income before loan impairment (charges)/release and other credit risk provisions		**1,907**	2,317
Loan impairment charges and other credit risk provisions	3	**(81)**	(73)
Net operating income	3	**1,826**	2,244
– employee compensation and benefits	4	**(891)**	(957)
– general and administrative expenses		**(674)**	(680)
– depreciation and impairment of property, plant and equipment	19	**(37)**	(40)
– amortisation and impairment of intangible assets and goodwill	18	**(5)**	(135)
Total operating expenses		**(1,607)**	(1,812)
Operating profit		**219**	432
Share of profit in associates and joint ventures	15	**—**	—
Profit before tax		**219**	432
Tax expense	6	**(43)**	(120)
Profit for the year		**176**	312
Profit attributable to shareholders of the parent company		**177**	310
Profit attributable to non-controlling interests		**(1)**	2

Basic earnings per ordinary share	7	**2.63**	4.61
Diluted earnings per ordinary share	7	**2.63**	4.61
Dividends per ordinary share	7	**6.11**	4.00

Consolidated statement of comprehensive income for the year ended 31 December 2017

	Notes	31 Dec 2017 €m	31 Dec 2016 €m
Profit/(loss) for the year (a)		**176**	312
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments (b)		**(51)**	(46)
– fair value gains/(losses)		**21**	96
– fair value gains/(losses) transferred to income statement on disposal		**(104)**	(127)
– amounts transferred to/(from) the income statement in respect of impairment losses		**–**	–
– income taxes		**32**	(15)
Cash flow hedges (c)		**35**	(61)
– fair value gains/(losses)		**(31)**	(30)
– fair value gains/(losses) transferred to income statement		**85**	(64)
– income taxes		**(19)**	33
Exchange differences and other (d)		**(2)**	(39)
Other comprehensive income for the period, reclassified in income statement on certain conditions (b) + (c) + (d) = (e)		**(18)**	(146)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit plans (f)		**(4)**	2
– before income taxes	4	**(5)**	3
– income taxes		**1**	(1)
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk (g)[1]		**(17)**	–
Total variation of assets and liabilities that cannot be reclassified in income statement (f) + (g) = (h)		**(21)**	2
Total comprehensive income for the period (a) + (e) + (h)		**137**	168
Total comprehensive income for the year attributable to:		**137**	168
– shareholders of the parent company		**138**	166
– non-controlling interests		**(1)**	2

1 *From 1 January 2017, the HSBC Group has adopted the requirements of IFRS 9. As a result, the effect of changes in credit risk of financial liabilities designated at fair value option are presented in other comprehensive income and not through profit and loss.*

Consolidated balance sheet at 31 December 2017

	Notes	31 Dec 2017 €m	31 Dec 2016 €m
Assets			
Cash and balances at central banks		**14,630**	4,714
Items in the course of collection from other banks		**435**	437
Trading assets	8	**22,401**	23,589
Financial assets designated at fair value	11 , 25	**8,605**	7,305
Derivatives	12	**34,407**	47,367
Loans and advances to banks	25	**4,843**	3,379
Loans and advances to customers	25	**44,856**	41,327
Reverse repurchase agreements – non-trading	25	**13,781**	11,862
Financial investments	13 , 25	**20,548**	26,504
Other assets		**294**	214
Current tax assets		**130**	156
Prepayments and accrued income		**733**	779
Interests in associates and joint ventures	15	**2**	2
Goodwill and intangible assets	18	**766**	725
Property, plant and equipment	19	**888**	814
Deferred tax assets	6	**225**	249
Total assets		**167,544**	169,423
Liabilities			
Deposits by banks	25	**13,297**	12,061
Customer accounts	25	**38,277**	34,220
Repurchase agreements – non-trading	25	**6,586**	7,592
Items in the course of transmission to other banks		**490**	416
Trading liabilities	20	**32,436**	26,468
Financial liabilities designated at fair value	21 , 25	**7,565**	8,464
Derivatives	12	**33,229**	44,013
Debt securities in issue	25	**5,159**	6,616
Other liabilities	22	**1,105**	734
Current tax liabilities		**29**	11
Liabilities under insurance contracts issued	25	**21,853**	21,302
Accruals and deferred income		**812**	828
Provisions	23	**103**	183
Deferred tax liabilities	6	**152**	201
Retirement benefit liabilities	4	**169**	165
Subordinated liabilities	24 , 25	**576**	276
Total liabilities		**161,838**	163,550
Equity			
Called up share capital	27	**337**	337
Share premium account		**16**	16
Other equity instruments[1]		**200**	–
Other reserves		**1,600**	1,618
Retained earnings		**3,523**	3,871
Total Shareholders' equity		**5,676**	5,842
Non-controlling interests		**30**	31
Total equity		**5,706**	5,873
Total liabilities and equity		**167,544**	169,423

1 *Please refer to note 1.3 'Significant events during the year', in the section 'Additional Tier 1 issuance (Other Equity Instrument)'.*

Consolidated statement of cash flows for the year ended 31 December 2017

	Notes	31 Dec 2017 €m	31 Dec 2016 €m
Profit before tax		**219**	432
Adjustments for non-cash items		**119**	203
– depreciation, amortisation and impairment		**42**	175
– net gain from investing activities		**(107)**	(122)
– share of profits in associates and joint ventures		**—**	—
– (gain)/loss on disposal of subsidiaries, businesses, associates and joint ventures		**—**	—
– loan impairment losses gross of recoveries and other credit risk provisions		**79**	68
– provisions including pensions		**32**	96
– share-based payment expense	4	**12**	13
– other non-cash items included in profit before tax		**29**	37
– elimination of exchange differences		**32**	(64)
Changes in operating assets and liabilities		**6,731**	2,589
– change in net trading securities and derivatives		**9,445**	6,664
– change in loans and advances to banks and customers		**(4,687)**	(2,116)
– change in reverse repurchase agreements – non-trading		**166**	(1,392)
– change in financial assets designated at fair value		**(1,301)**	(537)
– change in other assets		**48**	(11)
– change in deposits by banks and customer accounts		**5,293**	6,384
– change in repurchase agreements – non-trading		**(1,006)**	(2,691)
– change in debt securities in issue		**(1,457)**	(3,885)
– change in financial liabilities designated at fair value		**(926)**	(12)
– change in other liabilities		**1 168**	236
– dividends received from associates		**—**	—
– contributions paid to defined benefit plans		**—**	—
– tax paid		**(12)**	(51)
Net cash (used in)/generated from operating activities		**7,069**	3,224
Purchase of financial investments		**(1,602)**	(5,512)
Net cash flow on financial investments		**7,135**	6,673
Net cash flows from the purchase and sale of property, plant and equipment		**(92)**	(33)
Net cash flow on disposal/purchase of goodwill and intangible assets		**(49)**	(25)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures		**—**	—
Net cash flows from investing activities		**5,392**	1,103
Issue of ordinary share capital and other equity instruments[1]	7	**200**	—
Net sales/(purchases) of own shares for market-making and investment purposes		**—**	—
Redemption of preference shares and other equity instruments		**—**	—
Subordinated loan capital issued[2]		**300**	—
Subordinated loan capital repaid		**—**	—
Dividends paid to shareholders of the parent company[3]	7	**(505)**	(165)
Net cash inflow from change in stake of subsidiaries		**—**	—
Dividends paid to non-controlling interests		**—**	—
Net cash (used in)/from financing activities		**(5)**	(165)
Net increase/(decrease) in cash and cash equivalents		**12 456**	4,162
Cash and cash equivalents at 1 January		**9,807**	5,638
Exchange differences in respect of cash and cash equivalents		**(32)**	7
Cash and cash equivalents at 31 December		**22,231**	9,807
Cash and cash equivalents comprise of:			
– cash and balances at central banks		**14,630**	4,714
– items in the course of collection from other banks		**435**	437
– loans and advances to banks of one month or less		**1,985**	1,599
– reverse repurchase agreement with banks of one month or less		**5,426**	3,341
– treasury bills, other bills and certificates of deposit less than three months		**245**	132
– less: items in the course of transmission to other banks		**(490)**	(416)

1 New Additional Tier 1 issuance explained in note 1.3, in the section 'Significant events during the year' – 'Additional Tier 1 issuance (Other Equity Instrument)'.
2 New Tier 2 issuance explained in note 1.3, in the section 'Significant events during the year' – 'Tier 2 issuance (Subordinated loan)'.
3 The amount reported in 2017 includes the coupon related to other equity instruments.

Consolidated statement of changes in equity for the year ended 31 December 2017

					Other reserves						
	Called up share capital	Share premium	Other equity instruments[2]	Retained earnings[1]	Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger Reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2017	**337**	**16**	**–**	**3,871**	**161**	**(105)**	**(25)**	**1,587**	**5,842**	**31**	**5,873**
Profit for the year[1]	**–**	**–**	**–**	**177**	**–**	**–**	**–**	**–**	**177**	**(1)**	**176**
Other comprehensive income (net of tax)	**–**	**–**	**–**	**(21)**	**(51)**	**35**	**(2)**	**–**	**(39)**	**–**	**(39)**
– available-for-sale investments	**–**	**–**	**–**	**–**	**(51)**	**–**	**–**	**–**	**(51)**	**–**	**(51)**
– cash flow hedges	**–**	**–**	**–**	**–**	**–**	**35**	**–**	**–**	**35**	**–**	**35**
– actuarial gains/(losses) on defined benefit plans	**–**	**–**	**–**	**(4)**	**–**	**–**	**–**	**–**	**(4)**	**–**	**(4)**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	**–**	**–**	**–**	**(17)**	**–**	**–**	**–**	**–**	**(17)**	**–**	**(17)**
– exchange differences and other	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**–**	**(2)**	**–**	**(2)**
Total comprehensive income for the year[1]	**–**	**–**	**–**	**156**	**(51)**	**35**	**(2)**	**–**	**138**	**(1)**	**137**
– capital securities issued[2]	**–**	**–**	**200**	**–**	**–**	**–**	**–**	**–**	**200**	**–**	**200**
– dividends to shareholders[3]	**–**	**–**	**–**	**(505)**	**–**	**–**	**–**	**–**	**(505)**	**–**	**(505)**
– exercise and lapse of share option and vesting of share awards	**–**	**–**	**–**	**(8)**	**–**	**–**	**–**	**–**	**(8)**	**–**	**(8)**
– cost of share-based payment arrangements	**–**	**–**	**–**	**6**	**–**	**–**	**–**	**–**	**6**	**–**	**6**
– other movements	**–**	**–**	**–**	**4**	**–**	**–**	**–**	**(1)**	**3**	**–**	**3**
– transfers	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**1**	**–**	**–**	**–**
– change in ownership interest in subsidiaries that did not result in loss of control	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total Other	**–**	**–**	**200**	**(504)**	**–**	**–**	**–**	**–**	**(304)**	**–**	**(304)**
At 31 December 2017	**337**	**16**	**200**	**3,523**	**110**	**(70)**	**(27)**	**1,587**	**5,676**	**30**	**5,706**
At 1 January 2016	337	16	–	3,720	208	(44)	14	1,587	5,838	100	5,938
Profit for the year	–	–	–	310	–	–	–	–	310	2	312
Other comprehensive income (net of tax)	–	–	–	2	(46)	(61)	(39)	–	(144)	–	(144)
– available-for-sale investments	–	–	–	–	(46)	–	–	–	(46)	–	(46)
– cash flow hedges	–	–	–	–	–	(61)	–	–	(61)	–	(61)
– actuarial gains/(losses) on defined benefit plans	–	–	–	2	–	–	–	–	2	–	2
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	–	–	–	–	–	–	–	–	–	–	–
– exchange differences and other	–	–	–	–	–	–	(39)	–	(39)	–	(39)
Total comprehensive income for the year	–	–	–	312	(46)	(61)	(39)	–	166	2	168
– capital securities issued	–	–	–	–	–	–	–	–	–	–	–
– dividends to shareholders	–	–	–	(165)	–	–	–	–	(165)	–	(165)
– exercise and lapse of share option and vesting of share awards	–	–	–	(10)	–	–	–	–	(10)	–	(10)
– cost of share based payment arrangements	–	–	–	6	–	–	–	–	6	–	6
– other movements	–	–	–	8	(1)	–	–	–	7	(71)	(64)
– transfers	–	–	–	–	–	–	–	–	–	–	–
– change in ownership interest in subsidiaries that did not result in loss of control	–	–	–	–	–	–	–	–	–	–	–
Total Other	–	–	–	(161)	(1)	–	–	–	(162)	(71)	(233)
At 31 December 2016	337	16	–	3,871	161	(105)	(25)	1,587	5,842	31	5,873

1 *From 1 January 2017, the HSBC Group has adopted the requirements of IFRS 9. As a result, the effect of changes in credit risk of financial liabilities designated at fair value option are presented in other comprehensive income and not through profit and loss.*
2 *Please refer to note 1.3 'Significant events during the year', in the section 'Additional Tier 1 issuance (Other Equity Instrument)*
3 *The amount reported in 2017 includes the coupon related to other equity instruments.*

1 Basis of preparation and future accounting development

The consolidated financial statements of HSBC France are available upon request from the HSBC France registered office at 103 avenue des Champs-Elysées – 75419 Paris Cedex 08 or on the websites www.hsbc.com and www.hsbc.fr.

These consolidated financial statements were approved by the Board of Directors on 20 February 2018.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC France have been prepared in accordance with IFRSs as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). At 31 December 2017, there were no unendorsed standards effective for the year ended 31 December 2017 affecting these consolidated financial statements, and the HSBC France's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2017

HSBC has adopted the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value from 1 January 2017 in the consolidated financial statements. As a result, the effects of changes in those liabilities' credit risk is presented in other comprehensive income with the remaining effect presented in profit or loss. As permitted by the transitional requirements of IFRS 9, comparatives have not been restated. Adoption increased profit after tax by EUR 17 million with the opposite effect on other comprehensive income and no effect on net assets.

There were no other new standards applied in 2017. However, during 2017, the Group adopted a number of interpretations and amendments to standards which had an insignificant effect on the consolidated financial statements of the Group.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs which are effective from 1 January 2018 and 2019, but which have not yet been endorsed for use in the EU. HSBC France expects they will have an insignificant effect, when adopted, on the consolidated financial statements. HSBC has not early adopted any of the amendments effective after 31 December 2017, except the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value which was adopted from 1 January 2017.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers', IFRS 16 'Leases' and IFRS 17 'Insurance Contracts'.

IFRS 9, IFRS 15 and IFRS 16 have been endorsed for use in the EU and IFRS 17 has not yet been endorsed.

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured compared with IAS 39. In addition, on transition to IFRS 9 entities are required to revoke previous designations of financial assets and financial liabilities measured at fair value through profit or loss where the accounting mismatch no longer exists and are permitted to revoke such designations where accounting mismatches continue to exist.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an 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 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'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. IFRS 9 will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Transition

With the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017, the requirements of IFRS 9 'Financial Instruments' were adopted from 1 January 2018. IFRS 9 includes an accounting policy choice to continue IAS 39 hedge accounting, which HSBC has exercised, although it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. HSBC does not intend to restate comparatives. Adoption has reduced net assets of the HSBC France group at 1 January 2018 by EUR 31 million, with the classification and measurement changes increasing net assets by EUR 5 million and impairment reducing net assets by EUR 36 million, net of deferred tax. As a consequence, transitional CET1 has been reduced by 2 bps.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' and it is effective for annual periods beginning on or after 1 January 2018. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. HSBC adopts the standard on its mandatory effective date, on a retrospective basis. Adoption of IFRS 15 has no significant effect on the financial statements of HSBC France.

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'.

Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. HSBC is currently assessing the impact of IFRS 16, and it is not practicable to quantify the effect at the date of the publication of these financial statements. Existing operating lease commitments are set out in Note 29.

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2021. HSBC is considering its impact.

(c) Foreign currencies

Items included in the financial statements of each of HSBC France's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements of HSBC France are presented in euros. Transactions in foreign currencies are recorded in the income statement at the functional currency and converted at the exchange rate prevailing at the date of the statement of account. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

In the consolidated financial statements, the assets, and liabilities of branches, subsidiaries, and associates whose functional currency is not euros, are translated into the group's presentational currency at the rate of exchange at the balance sheet date while their results are translated into Euro at the closing rates of exchange for the reporting period. Exchange differences on a non-monetary item that is part of a net investment in a foreign operation are recognised in other comprehensive income in consolidated financial statements. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Disclosures under IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures' concerning the nature and extent of risks relating to insurance contracts and financial instruments have been included in the 'Risk management and control' section from page 63 to 121.

Capital disclosures have been included in the 'Capital management and leverage' section from 121 to 125.

HSBC France's Securitisation activities and structured product disclosures are published in the Note 17 from pages 168 to 169.

Following sections, are presented in 'Risk factors and their management within HSBC France':

- Credit risks: pages 73 and following;
- Market risks: pages 91 and following;
- Liquidity risks: pages 88 and following;

- Insurance risks: pages 116 and following;
- Capital management and allocation: pages 121 and following.

Information related to results by activity (IFRS 8) are disclosed in the 'Report of the Board of Directors to the Annual General Meeting' in pages 9 and 10.

(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 listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2017 Financial Statements. Management's selection of the group's accounting policies which contain critical estimates and judgements, the most important for HSBC France are listed below.

- Impairment of loans and advances: refer to risk management report on pages 77 to 85;
- Deferred tax assets: refer to Note 6;
- Valuation of financial instruments: refer to Note 9;
- Goodwill impairment: refer to Note 18.a;
- PVIF: refer to Note 18.c;
- Provisions for litigations: refer to Notes 23 and 30.

(f) Segmental Analysis

Measurement of segmental assets, liabilities, income and expenses is in accordance with the group's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. The types of products and services from which each reportable segment derives its revenue are discussed in the 'Report of the Board of Directors to the Annual General Meeting' pages 9 to 13.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group 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 and capital resources.

1.2 Main accounting methods

(a) Consolidation and related disclosure

The HSBC France group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is initially assessed based on consideration of all facts and circumstances, and is subsequently reassessed when there are significant changes to the initial set-up.

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 over the relevant activities or holding the power as agent or principal.

All internal transactions to the HSBC France group are eliminated on consolidation.

The consolidated financial statements of the group also include the attributable share of the results and reserves of joint ventures and associates, based on either financial statements made up to 31 December.

(b) Income and expense

Interest income and expense

Interest income and expense for all interest-bearing financial instruments except those classified as held-for-trading or designated at fair value (other than debt issued by HSBC France and related derivatives) are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest method is the rate at inception that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

Non-interest income and expense

Fee income and expense

HSBC France earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- if the income is earned on the execution of a significant act, it is recognised when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of shares or other securities);
- if the income is earned for the provision of services, it is recognised as the services are provided (for example, asset management, portfolio and other management advisory and service fees);
- if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in 'Interest income and expense'.

Net Trading income

Net Trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held-for-trading, together with related interest income, expense and dividends.

Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value includes:

- all gains and losses from changes in the fair value of financial assets and liabilities designated at fair value through profit or loss, including liabilities under investment contracts;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets or liabilities designated at fair value through profit or loss; and
- interest income, interest expense and dividend income in respect of:
  - financial assets and liabilities designated at fair value through profit or loss; and
  - derivatives managed in conjunction with the above,
  - except for interest arising from issued debt securities and derivatives managed in conjunction with those debt securities, which is included in 'Interest expense'.

Dividend income

Dividend income is recognised when the right to receive payment is established.

(c) Financial instruments carried at amortised cost

Loans and advances to banks and customers and most of the financial debt are carried at amortised cost. Initial recognition includes direct transaction cost. When the initial fair value is lower than the cash amount advanced, the write down is deferred in balance sheet and amortised over the life of the instrument, except if loan is impaired.

Loans and advance to customers

Loans and advances to banks and customers include loans and advances originated by HSBC France, which are not intended to be sold in the short term and have not been classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when either borrowers repay their obligations, or the loans are sold or written off or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment allowance. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

For certain leveraged finance and syndicated lending activities, the group may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of the group. Where the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a trading derivative and measured at fair value through profit and loss. On drawdown, the loan is classified as held for trading and measured at fair value through profit and loss. Where it is not the group's intention to trade the loan, a provision on the loan commitment is only recorded where it is probable that the group will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the hold portion is recorded at its fair value and subsequently measured at amortised cost using the effective interest method. However, where the initial fair value is lower than the cash amount advanced, the write-down is charged to the income statement in other operating income. The write-down will be recovered over the life of the loan, through the recognition of interest income using the effective interest rate method, unless the loan becomes impaired. The write-down is recorded as a reduction to other operating income.

Impairment of loans and advances

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances.

Individually assessed loans

All loans are individually assessed for the purpose of determining whether there is objective evidence of a loss and raise an impairment charge accordingly. Determining whether there is objective evidence that a loss event has occurred and, if so, the measurement of the impairment allowance, both require judgement. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the prospects for refinancing or the sale of a specified asset. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

The HSBC France group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are significant, higher levels of judgement and estimation uncertainty are involved in determining their effects on loan impairment allowances. Judgements are involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation. Forbearance activities take place in both retail and wholesale loan portfolios.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which our loan impairment allowances as a whole are sensitive.

The criteria used to make this assessment 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 realisation;
- 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, where the concession is not insignificant;
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Losses for impaired loans are recognised promptly when there is objective evidence of impairment. Impairment losses are calculated on individual loans and on loans assessed collectively and are recorded as charges to the income statement against the carrying amount of impaired loans on the balance sheet.

In determining such impairment losses on individually assessed accounts, the following factors are considered:

- HSBC France's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or *pari passu* with, HSBC France and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely costs of obtaining and selling collateral as part of foreclosure;
- the ability of the borrower to obtain, and make payments in, the relevant foreign currency if loans are not in local currency; and
- where available, the secondary market price for the debt.

The determination of the realisable value of security is based on the market value at the time the impairment assessment is performed.

Impairment loss is calculated by comparing the present value of the expected future cash flows, which includes expected future receipts of contractual interests, discounted at the original effective interest rate of the loan, with its current carrying value. The impairment allowances on individually significant accounts are reviewed at least quarterly.

Collective impairment

A collective impairment is raised on loan portfolios to recognise losses incurred but not yet reported.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product, etc.);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The estimated period between a loss occurring and its identification may consequently vary over time as these factors change.

Regarding Retail customers, the collective provisioning methodology differs between the Home Loan portfolio and the other types of credit exposures.

Regarding Home Loans, the collective provision calculation makes a difference between those exposures that are secured by a mortgage on the property and those that are guaranteed by a specialised company. In both cases, it takes into account the observed Probabilities of Default over the last 12 months and, for the defaulted exposures, the actual provisioning rate applied.

In respect of the other exposure types, the calculation method is based on the HSBC Group's 'Net Flow Rate' model, which extrapolates the foreseeable losses over a given period on the basis of, on the one hand, the observed migration rates between payments that are overdue by more than 30 days, 60 days and 90 days, and, on the other hand, the historical loss rates of the latter category.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security have been received.

Reversals of impairment

If the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly.

The write-back is recognised in the income statement.

Renegotiated loans

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans taking into account the new contractual terms following renegotiation. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument. Any new agreements arising due to derecognition events will continue to be disclosed as renegotiated loans.

(d) Financial Instruments at Fair Value

Available-for-sale debt securities

Treasury bills, debt securities and equity shares intended to be held on a continuing basis are classified as available-for-sale securities unless designated at fair value (see Note 11) or classified as 'held-to-maturity'. Financial investments are recognised at trade date, when HSBC France enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the transactions are sold or the borrowers repay their obligations.

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value. Changes in fair value are recognised in equity in the 'Available-for-sale reserve' until the securities are either sold or impaired. On the sale of available-for-sale securities, gains or losses held within equity are recycled through the income statement and classified as 'Gains less losses from financial investments'.

Interest income is recognised on such securities using the effective interest method, calculated over the asset's expected life. Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are recognised as an adjustment to the effective interest rate. Dividends are recognised in the income statement when the right to receive payment has been established.

Impairment of available-for-sale financial assets

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated, an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between its acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provision' in the income statement and impairment losses for available-for-sale equity securities are recognised within 'Gains less losses from financial investments' in the income statement. The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

In assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, level of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the type of asset:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in fair value of the financial asset is recognised in other comprehensive income. If the fair value of the debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement;

- for an available-for-sale equity security, all subsequent variations in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on equity securities are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity securities are recognised in the income statement, to the extent that further cumulatives impairment losses have been incurred.

Financial assets designated at fair value

A financial instrument, other than one held for trading, is classified in this category if it meets one or more criteria set out below, and is so designated irrevocably at its inception. HSBC France may designate financial instruments at fair value where the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial instruments or recognising the gains and losses on them on different bases from related positions. Under this criterion, the main classes of financial assets designated by the HSBC France group are financial assets under unit-linked insurance and unit-linked investment contracts. Liabilities to customers under linked contracts 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, the assets would be classified as available for sale, with changes in fair value recorded in other comprehensive income. These financial instruments are managed on a fair value basis and information is provided to management on that basis. Designation at fair value of the financial assets under investment contracts allows the changes in fair values to be recorded in the income statement and presented in the same line;
- applies to a group of financial assets that is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management staff;
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made, is irrevocable in respect of the financial instruments it affects.

Designated financial assets are recognised at trade date when HSBC France enters into contractual arrangements with counterparties, which is generally on trade date, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured. Gains and losses arising from fair value changes of these assets are recognised in the income statement at the occurring date and, with interest income and expenses and dividend related are recognised in 'Net income from financial instruments designated at fair value'.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are also included in 'Net income from financial instruments designated at fair value'. Interest on these derivatives is also included in this line. The amount of change during the period, and cumulatively, in the fair value of designated loans and receivables that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions.

Financial liabilities designated at fair value

The fair value designation, once made, is irrevocable.

Designated financial liabilities are recognised at settlement date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when extinguished.

Own credit spread variations on financial liabilities designated at fair value are recorded in other comprehensive income ; the remaining effect is presented in profit or loss.

HSBC France may designate financial instruments at fair value in the following cases:

Long-term debt issues

The interest payable on certain fixed rate long-term debt securities issued has been economically hedged by an interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the income statement. From 1 January 2017, by designating the long-term debt at fair value, changes in those liabilities' credit risk are recorded in other comprehensive income with the remaining effect presented in profit or loss (refer to the Note 1.1.b 'Future accounting developments').

Financial liabilities under unit-linked insurance and unit-linked investment contracts

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof.

A contract under which HSBC France accepts 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. A contract may also transfer financial risk, but is accounted for as an investment contract if the insurance risk is not significant.

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. A liability adequacy test is carried out on insurance liabilities to ensure that the carrying amount of the liabilities is sufficient in the light of current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared with the carrying value of the liability. When a shortfall is identified it is charged immediately to the income statement.

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. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in 'Net trading income'. Gains and losses on derivatives managed in conjunction with financial instruments designated at fair value are reported in 'Net income from financial instruments designated at fair value' together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities issued by the group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

1.3 Significant events during the year

Single Resolution Fund ('SRF')

HSBC France contribution amounted to EUR 49 million for 2017 of which EUR 7 million has been recorded under security deposits. Total of the contribution to Single Resolution Fund amounted to EUR 34 million in balance sheet.

Targeted Long-Term Refinancing Operation ('TLTRO')

HSBC France has participated in the 4th tranche of Targeted Long-Term Refinancing Operation (TLTRO II) for EUR 600 million in March 2017. Total outstanding participation amounted to EUR 4.1 billion.

Tier 2 issuance (Subordinated loan)

HSBC France has issued New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 300 million. The new Tier 2 Capital is Subordinated Instrument with a maturity of 10 years and with a floating rate.

Additional Tier 1 issuance (Other Equity Instrument)

HSBC France has issued New Tier 1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 200 million. The new AT1 Capital Instrument is undated perpetual instrument callable by HSBC France on any interest payment dates falling five years after the date of issue and will form part of Equity (refer to the Note 7).

Dividends related to 2017

The Combined General Meeting of 15 May 2017 approved the proposal of the Board of Directors held on 26 April 2017 to distribute an exceptional dividend amounting for EUR 300,098,330.15, or EUR 4.45 per share. This exceptional dividend was paid on 30 May 2017 to the 67,437,827 outstanding shares at this date (refer to the Note 7).

The Board of Directors held on 27 October 2017 decided the distribution of an interim dividend of EUR 0.97 per share in respect of the year 2017, to be paid to the 67,437,827 outstanding shares at this date. The interim dividend was paid on 16 November 2017.

The Board of Directors held on 20 February 2018 will propose at the Combined General Meeting, on 13 March 2018, to distribute a dividend amounting for EUR 111,946,792,82, or EUR 1.66 per share, in respect of the year 2017. This dividend, if approved by the shareholders, will be payable after deduction of the interim dividend of EUR 0.97 per share decided by the Board of Directors held on 27 October 2017 and already paid to the outstanding shares at this date.

Changes in Business lines segmentation

The HSBC Group has directed a strategic change in the composition of Global Businesses in 2016. The most significant change is the introduction of a newly established 'Corporate Centre' segment which is comprised of Balance Sheet Management ('BSM') activities, the 'Other Activities' heading and the Inter-segment. Certain costs previously retained in the 'Other Activities' are now allocated back to the business lines to which they relate.

This change has been implemented on 1 January 2017, HSBC France's reporting segments are now Retail Banking and Wealth Management ('RBWM'), Global Banking and Markets ('GB&M'), Commercial Banking ('CMB'), Global Private Banking ('GPB') and the Corporate Centre.

Changes in Business lines at 31 December 2016 has been restated in order to reflect the new segmentation.

Branches creation

In order to be compliant to the new 'Ringfencing' law on the retail banking activities separation in the United Kingdom, HSBC France opened last 14 August 2017 a branch in Greece, within the project of acquisition of the HSBC plc Greece branch activities. The operational transfer has been done on 1 January 2018.

HSBC France, opened last 9 October 2017 a branch in the United Kingdom. This new entity will give from 2018 the possibility of choice to the European clients, in a uncertain political and economic context linked to the future exit of the United Kingdom from the European Union. There is no impact in the financial statements at 31 December 2017.

GBM loan impairment charges

A profit has been recognized for EUR 82 million on an hedging instrument related to a Global Banking and Markets loan. The exercise of the hedging instrument enabled HSBC France to offset the loan impairment charge for an amount of EUR 82 million.

2 Net earned insurance premium income and net insurance claims, benefits paid and movement in liabilities to policyholders

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which HSBC France accepts 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 investment 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.

	Non-linked insurance	Linked life insurance	Investment contracts with DPF features	Total
	€m	€m	€m	€m
Gross earned premiums	**66**	**–**	**1,799**	**1,865**
– gross written premiums	**66**	**–**	**1,799**	**1,865**
– movement in unearned premiums	**–**	**–**	**–**	**–**
Reinsurers' share of gross earned premiums	**(4)**	**–**	**–**	**(4)**
– gross written premiums ceded to reinsurers	**(4)**	**–**	**–**	**(4)**
– reinsurers' share of movement in unearned premiums	**–**	**–**	**–**	**–**
Year ended 31 December 2017	**62**	**–**	**1,799**	**1,861**
Gross earned premiums	70	–	1,696	1,766
– gross written premiums	70	–	1,696	1,766
– movement in unearned premiums	–	–	–	–
Reinsurers' share of gross earned premiums	(3)	–	–	(3)
– gross written premiums ceded to reinsurers	(3)	–	–	(3)
– reinsurers' share of movement in unearned premiums	–	–	–	–
Year ended 31 December 2016	67	–	1,696	1,763

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 des 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.

	Non-linked insurance	Linked life insurance	Investment contracts with DPF features	Total
	€m	€m	€m	€m
Gross claims incurred and movement in liabilities	**23**	**2**	**2,577**	**2,602**
– claims, benefits and surrenders paid	**24**	**3**	**1,777**	**1,804**
– movement in liabilities	**(1)**	**(1)**	**800**	**798**
Reinsurers' share of claims incurred and movement in liabilities	**–**	**–**	**–**	**–**
– gross written premiums ceded to reinsurers	**–**	**–**	**–**	**–**
– reinsurers' share of movement in unearned premiums	**–**	**–**	**–**	**–**
Year ended 31 December 2017	**23**	**2**	**2,577**	**2,602**
Gross claims incurred and movement in liabilities	19	(1)	2,181	2,199
– claims, benefits and surrenders paid	21	5	1,823	1,849
– movement in liabilities	(2)	(6)	358	350
Reinsurers' share of claims incurred and movement in liabilities	(1)	–	–	(1)
– gross written premiums ceded to reinsurers	(1)	–	–	(1)
– reinsurers' share of movement in unearned premiums	–	–	–	–
Year ended 31 December 2016	18	(1)	2,181	2,198

3 Net Operating income (significant items)

Net operating income for the year ended 31 December 2017 amounts to EUR 1,826 million (2016: EUR 2,244 million) and includes in particular, but not exhaustively, income, expense, gains and losses as follows:

	31 Dec 2017 €m	31 Dec 2016 €m
Income		
Interest recognised on impaired financial assets	**21**	27
Interest income on loans and advances to customers	**773**	900
Interest income on financial investments	**412**	433
Fees earned on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	**576**	614
Fees earned on trust and other fiduciary activities where HSBC holds or invests assets on behalf of its customers	**203**	217
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(138)**	(136)
– on customer accounts	**(75)**	(84)
– on debt securities in issue and subordinated liabilities, excluding interest on financial liabilities held for trading or designated at fair value	**(10)**	(14)
– other	**(53)**	(38)
Fees payable on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	**(288)**	(248)
Gains/(losses)	**11**	8
– Gains/(losses) recognised on assets held for sale	**–**	–
– Impairment of available-for-sale equity securities	**–**	–
– Gains/(losses) on disposal of property, plant and equipment and non-financial investments	**11**	8
Loan impairment charges and other credit risk provisions	**(81)**	(73)
– net impairment charge on loans and advances	**(82)**	(73)
– release/(impairment) of available-for-sale debt securities	**–**	–
– release/(impairment) in respect of other credit risk provisions	**1**	–

4 Employee compensation and benefits

(a) Total employee compensation and average number of employees

	31 Dec 2017 €m	31 Dec 2016 €m
Wages and salaries[1]	**603**	723
Social security costs[1,2]	**271**	167
Post-employment benefits[2]	**17**	67
Total	**891**	957

1 *Tax on wages and salaries is recognized in social security costs from 1 January 2017.*
2 *The mandatory retirements contributions (ARRCO-AGIRC) are recognized in social security costs from 1 January 2017.*

Average number of HSBC France's employees during the year

	2017	2016
Retail Banking and Wealth Management	**3,684**	3,803
Commercial Banking	**1,346**	1,366
Global Banking and Markets	**652**	715
Private Bank	**105**	96
Corporate Centre	**10**	11
Support functions and others[1]	**2,967**	3,254
Total[2]	**8,764**	9,245

1 *Including pre-retirement (CFCS) and expatriates.*
2 *Permanent contracts (CDI) and fixed terms contracts (CDD) within HSBC France and its subsidiaries HSBC Global Asset Management and HSBC Assurances Vie.*

(b) Pension and other post-retirement benefits

1 Policy

HSBC France 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 health-care benefits.

HSBC France pays each retiree a retiring allowance. 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 77 per cent of all commitments in France.

HSBC France grants certain beneficiaries a scheme plan. Those scheme plan forecast the payment of benefits from the date of retirement. Those plans represent roughly 19 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 France 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 France's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

2 Post-employment defined benefit plans' principal actuarial assumptions

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2017, and the 2018 periodic costs, were:

	Discount rate	Deferred revaluation[1]	Inflation rate	Rate of increase for pensions in payment and deferred pensions	Rate of pay increase	Healthcare cost trend rate[2]
	%	%	%	%	%	%
At 31 December 2017						
Total	**1.35**	**1.35**	**1.50**	**1.50**	**2.61**	**–**
At 31 December 2016						
Total	1.65	1.65	1.50	1.50	2.65	–

1 *Expected Return Rate on Equity.*
2 *HSBC France uses 'mortality tables' TGH/ TGF05 for pensions and TV 8890 for post-employment benefits.*

HSBC France 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.

3 Recording of post-employment obligations

Income statement charge

Defined benefit pension plans

	31 Dec 2017	31 Dec 2016
	€m	€m
Current service cost	**5**	7
Interest cost	**3**	3
Net interest (income) on net defined benefit assets	**–**	–
Past service cost	**–**	–
Total net expense	**8**	10

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	Total
	€m	€m	€m
2017	**8**	**177**	**169**
Total employee benefit assets	**–**	**–**	**–**
Total employee benefit liabilities	**8**	**177**	**169**
2016	9	174	165
Total employee benefit assets	–	–	–
Total employee benefit liabilities	9	174	165

Cumulative actuarial gains/(losses) recognised in other comprehensive income

	2017	2016
	€m	€m
At 1 January	**71**	74
Total actuarial gains/(losses) recognised in other comprehensive income for the year	**5**	(3)
At 31 December	**76**	71

Actuarial gains and losses of the year are composed of:

- EUR 7 million of actuarial losses of actuarial assumptions' changes are only explained by the decrease of the discount rate from 1.65 per cent to 1.35 per cent.
- EUR (2) million of actuarial gains arising from experience adjustments explained by the difference between actuarial assumptions adopted and what really happened over the period.

Actuarial assumption sensitivities

The following table shows the effect of changes in these and the other key 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	
	2017	2016
	€m	€m
Discount rate		
Change in pension obligation at year end from a 25bps increase	**(6)**	(6)
Change in pension obligation at year end from a 25bps decrease	**6**	6
Change in following year pension cost from a 25bps increase	**–**	–
Change in following year pension cost from a 25bps decrease	**–**	–
Rate of inflation		
Change in pension obligation at year end from a 25bps increase	**1**	1
Change in pension obligation at year end from a 25bps decrease	**(1)**	(1)
Change in following year pension cost from a 25bps increase	**–**	–
Change in following year pension cost from a 25bps decrease	**–**	–
Rate of increase for pensions in payment and deferred pensions		
Change in pension obligation at year end from a 25bps increase	**1**	1
Change in pension obligation at year end from a 25bps decrease	**(1)**	(1)
Change in following year pension cost from a 25bps increase	**–**	–
Change in following year pension cost from a 25bps decrease	**–**	–
Rate of pay increase		
Change in pension obligation at year end from a 25bps increase	**5**	5
Change in pension obligation at year end from a 25bps decrease	**(4)**	(4)
Change in following year pension cost from a 25bps increase	**–**	–
Change in following year pension cost from a 25bps decrease	**–**	–
Mortality		
Change in pension obligation from each additional year of longevity assumed	**2**	2

Defined benefit pension plan

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 2017	**9**	**174**	**165**
Current service cost	**–**	**5**	**5**
Past service cost and (gains)/losses from settlements	**–**	**–**	**–**
Service cost	**–**	**5**	**5**
Net interest (income)/cost on the net defined benefit liability	**–**	**3**	**3**
Remeasurement effects recognised in other comprehensive income	**–**	**5**	**5**
– actuarial losses/(gains) from changes in demographic assumptions	**–**	**(2)**	**(2)**
– actuarial losses/(gains) from changes in financial assumptions	**–**	**7**	**7**
– actuarial losses/(gains) from experience	**–**	**–**	**–**
Exchange differences	**–**	**–**	**–**
Benefits paid	**(1)**	**(10)**	**(9)**
At 31 December 2017	**8**	**177**	**169**
Retirement benefit liabilities recognised on the balance sheet	**–**	**–**	**–**
Retirement benefit assets recognised on the balance sheet	**–**	**–**	**–**
Present value of defined benefit obligation relating to:	**–**	**177**	**–**
– actives	**–**	**140**	**–**
– deferreds	**–**	**–**	**–**
– pensioners	**–**	**37**	**–**
Net defined benefit liability at 1 January 2016	10	175	165
Current service cost	–	8	8
Past service cost and (gains)/losses from settlements	–	–	–
Service cost	–	8	8
Net interest (income)/cost on the net defined benefit liability	–	3	3
Remeasurement effects recognised in other comprehensive income	–	(3)	(3)
– actuarial losses/(gains) from changes in demographic assumptions	–	(6)	(6)
– actuarial losses/(gains) from changes in financial assumptions	–	3	3
– actuarial losses/(gains) from experience	–	–	–
Exchange differences	–	–	–
Benefits paid	(1)	(9)	(8)
At 31 December 2016	9	174	165
Retirement benefit liabilities recognised on the balance sheet	–	–	165
Retirement benefit assets recognised on the balance sheet	–	–	–
Present value of defined benefit obligation relating to:	–	174	–
– actives	–	135	–
– deferreds	–	1	–
– pensioners	–	38	–

Benefits expected to be paid from plans to retirees over each of the next five years and in aggregate for the five years thereafter, are as follows:

	2018	2019	2020	2021	2022	2023-2028
	€m	€m	€m	€m	€m	€m
Total of plans	9	6	8	8	8	49

Fair value of plan assets by asset classes

	31 Dec 2017				31 Dec 2016			
	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	**8**	**8**	**–**	**–**	9	9	–	–
– equities	**–**	**–**	**–**	**–**	–	–	–	–
– bonds	**8**	**8**	**–**	**–**	9	9	–	–
– property	**–**	**–**	**–**	**–**	–	–	–	–
– derivatives	**–**	**–**	**–**	**–**	–	–	–	–
– other	**–**	**–**	**–**	**–**	–	–	–	–

(c) Share-based payments

Share-based payments are payments based on shares issued by HSBC Holdings plc. HSBC France employees benefit from the following advantages:

- until 2005, HSBC Holdings plc awarded share options on HSBC Holdings plc shares;
- from 2006, HSBC Holdings plc implemented share plans on HSBC Holdings plc shares;
- employees can subscribe to HSBC Holdings plc shares within the employee share ownership plan.

Share plans

This expense is spread on a straight-line basis over the vesting period with a balancing entry in a liability account. The expense value takes into account assumptions regarding employee departures and performance conditions.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions.

Market conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other conditions are satisfied. A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

When an award has been modified, as a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligation.

Employee share ownership plan

Employees can subscribe to HSBC Holdings plc shares with a discount and without any vesting period. This advantage is expensed immediately as employee compensation and benefits. The five-year lock-in period is not taken into account in the consideration of the expense. From 2016, this advantage has not been proposed to employees.

Income statement charge

	31 Dec 2017 €m	31 Dec 2016 €m
Restricted share awards	**12**	13
Savings related and other share option plans	**–**	–
Total	**12**	13

Share Group policy

In 2005, the HSBC Group significantly revised its employee share option and share policy.

The new 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.

'Group Performance Shares'

	2017 Number (000)	2016 Number (000)
Outstanding at 1 January	**75**	58
Capital increase	**–**	–
Granted in the year	**–**	17
Vested in the year	**(8)**	–
Transferred in the year	**–**	–
Expired in the year	**–**	–
Outstanding at 31 December	**67**	75

This category of shares is available, beyond a vesting period of five years, at the retirement date. From 2016, those 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 and 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 can not be sold before a tax lock-up period of two-year period after their vesting. Since 1 January 2016, this category does not support 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' vest under a period about three or five years. But all the shares granted to 'Material Risk Taker' are assorted to a period of tax unavailability about six months or 12 months.

	2017	2016
	Number (000)	Number (000)
Outstanding at 1 January	**1,566**	2,875
Granted in the year	**1,187**	1,179
Vested in the year	**(1,873)**	(2,442)
Transferred in the year	**—**	—
Expired in the year	**(48)**	(46)
Shares issued	**—**	—
Outstanding at 31 December	**832**	1,566

In 2017, EUR (6.0) million was charged to the income statement in respect of amortisation of the existing plans for HSBC in France (in 2016: EUR (6.3) million).

Regulatory and best practice guidance has clarified the required structure and terms of the vesting period that should be recognised in the consolidated financial statements of the HSBC France group. As a result, the vesting period for deferred share awards expected to be granted in 2017, in respect of the 2016 performance year, was determined to have started on 1 January 2016.

Employee share offering

In 2017, the HSBC Group did not proceed to any capital increase opened to current employees.

5 Auditors' remuneration

	PricewaterhouseCoopers		**BDO France – Léger & Associés**			
	Audit[2]		**Audit**		**Others**	
	Amount (excluding VAT)	**%**	**Amount (excluding VAT)**	**%**	**Amount (excluding VAT)**	**%**
2017 Financial year	**€k**		**€k**		**€k**	
Account certifications	**3,702**	**90**	**667**	**97**	**—**	**—**
Other services	**409**	**10**	**23**	**3**	**—**	**—**
Remuneration paid in 2017	**4,111**	**100**	**690**	**100**	**—**	**—**
2016 Financial year						
Account certifications	2,347	88	586	85	—	—
Other services[1]	306	12	103	15	—	—
Remuneration paid in 2016	2,653	100	689	100	—	—

1 *Including services directly related to the Statutory Auditors deleted from 17 June 2016.*
2 *This column includes audit fees paid to PricewaterhouseCoopers entities other than PricewaterhouseCoopers Audit France.*

Services other than the account certification at 31 December 2017 for PricewaterhouseCoopers Audit and BDO France – Léger & Associés mainly concern comfort letters related to the programs of issuances and interim dividends and the other services provided by PricewaterhouseCoopers Audit mainly relate to legal or regulatory services and also services related to specific reports (ISAE3000), reports related to internal control procedures (i.e. report ISAE3402), training, or normative and regulatory monitoring studies.

6 Tax expense and deferred tax

(a) Current and deferred tax expense

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when HSBC France intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts 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 that 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 based on tax rates and laws enacted, or substantially enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same legal entity, and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value remeasurement of available-for-sale investments, cash flow hedging instruments and own credit spread on liabilities classified at fair value option is credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

The amount of deferred tax expense has been recognised at 31 December 2017, taking into account the profit outlook as established in the budget.

Current and deferred tax expense

	31 Dec 2017	31 Dec 2016
	€m	€m
Current tax	**43**	41
Deferred tax	**–**	79
Tax expense	**43**	120
	%	%
Effective tax rate	**19.4**	27.7

The 2018 Finances Law (*'Loi de Finances'*) integrates a gradual decrease of the tax rate from 33 1/3 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.

The 2017 Finances Law (*'Loi de Finances'*) has established two exceptional contributions of 15 per cent each, based on the income tax expense and depending on turnover.

As a consequence, in 2017 France's tax rate is 44.43 per cent (34.43 per cent in 2016).

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 tax rate decrease from 33 1/3 to 25 per cent.

The decrease of the tax expense between 2016 and 2017 is mainly due to the decrease of the profit before tax.

Analysis of overall tax charges

The tax charged to the income statement differs from the tax expense that would apply if all profits had been taxed at the UK corporation tax rate as follows:

Analysis of overall tax charges

	31 Dec 2017		31 Dec 2016	
	€m		€m	
	Overall tax charges	**%**	Overall tax charges	%
Taxation at French corporate tax rate of 44.43% (2016 : 34.43%)	**97**	**44.43**	149	34.43
Effect of taxing overseas profit at different rates	**(15)**	**(7.1)**	(17)	(3.9)
Non-taxable income and gains subject to tax at a lower rate	**(6)**	**(2.6)**	(35)	(8.2)
Deferred tax temporary differences not provided	**–**	**–**	–	–
Permanent disallowables	**25**	**11.4**	60	13.9
Changes in tax rates	**(10)**	**(4.8)**	(7)	(1.7)
Local taxes and overseas withholding taxes	**24**	**11.1**	20	4.7
Adjustment in respect of prior years	**(5)**	**(2.4)**	(4)	(0.9)
Other items	**(67)**	**(30.6)**	(46)	(10.6)
Total tax charged/(credited) to the income statement	**43**	**19.4**	120	27.7

The effective tax rate for 2017 of 19.4 per cent was lower than the French corporate tax rate of 44.43 per cent, mainly due to tax credit.

Deferred taxation

	31 Dec 2017			31 Dec 2016		
	Deferred tax asset	Deferred tax liability	Total	Deferred tax asset	Deferred tax liability	Total
	€m	€m	€m	€m	€m	€m
Temporary differences:						
– retirement benefits	35	1	36	38	1	39
– assets leased	30	(2)	28	53	(2)	51
– revaluation of property	(8)	—	(8)	(9)	—	(9)
– other temporary differences	168	(151)	17	167	(200)	(33)
– deferred losses carried forward	—	—	—	—	—	—
	225	(152)	73	249	(201)	48

The Deferred Tax amounts in ‘other temporary differences’ category mainly concern Deferred Tax Assets on Covered Bonds Mark-to-Market and the Deferred Tax Liabilities on PVIF.

The main amounts of deferred tax related to items that are charged directly to equity are detailed as follows:

	31 Dec 2017	31 Dec 2016
	€m	€m
Cash flow hedge	39	58
Available-for-sale reserve	(43)	(70)
Own credit spread FVO[1]	44	—
Net foreign exchange	—	—
Actuarial losses	22	20

1 *From 1 January 2017, the HSBC Group has adopted the requirements of IFRS 9. As a result, the effect of changes in credit risk of financial liabilities designated at fair value option are presented in other comprehensive income and not through profit and loss.*

Movement of net deferred tax assets/(liabilities)

	Retirement benefits[2]	Loan impairment allowances[2]	Available-for-sale investments[2]	Goodwill and intangibles[2]	Other[1,2]	Total[2]
	€m	€m	€m	€m	€m	€m
Assets	38	43	(42)	(5)	215	249
Liabilities	1	—	(28)	—	(174)	(201)
At 1 January 2017	39	43	(70)	(5)	41	48
Income statement	(4)	(24)	(5)	1	32	—
Other comprehensive income	1	—	32	—	(10)	23
Equity	—	—	—	—	—	—
Foreign exchange and other adjustments	—	—	—	—	2	2
Movement	(3)	(24)	27	1	24	25
Assets	35	19	(25)	(4)	200	225
Liabilities	1	—	(18)	—	(135)	(152)
At 31 December 2017	36	19	(43)	(4)	65	73
Assets	44	44	(29)	(5)	242	296
Liabilities	1	—	(23)	—	(182)	(204)
1 January 2016	45	44	(52)	(5)	60	92
Income statement	(5)	(1)	(2)	—	(73)	(81)
Other comprehensive income	(1)	—	(15)	—	33	17
Equity	—	—	—	—	—	—
Foreign exchange and other adjustments	—	—	(1)	—	21	20
Movement	(6)	(1)	(18)	—	(19)	(44)
Assets	38	43	(42)	(5)	215	249
Liabilities	1	—	(28)	—	(174)	(201)
At 31 December 2016	39	43	(70)	(5)	41	48

1 *Deferred tax in ‘Other’ includes liabilities deferred tax from PVIF and assets deferred tax from Mark-to-Market of Covered Bonds debts and Cash Flows Hedge.*
2 *The sign agreement has been reviewed in order to align with HSBC Group’s display.*

(b) 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 1.56 per cent of added-value of the year.

HSBC France 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 2017, the impact of this accounting position was a classification of a charge of EUR 17.4 million (2016: EUR 22.3 million) on the 'Income Tax' and the recognition of a deferred tax liability of EUR 8.7 million (2016: EUR 3.8 million).

(c) Crédit d'impôt Compétitivité Emploi ('CICE')

The '*Crédit d'impôt Compétitivité Emploi' ('CICE')* is a new tax rebate that became operative on 1 January 2013. Available for every French company, the CICE substantially reduces the tax paid. For 2017, the CICE corresponds to 7 per cent of staff costs excluding salaries over 2.5 times the minimum wage (SMIC).

The CICE is equivalent to a reduction in staff costs and it is considered as a government grant.

Thus, the HSBC France group, in application of IAS 20, has chosen to recognise the CICE as a reduction of business expenses.

For the fiscal year 2017, HSBC France group benefited from a EUR 7.8 million tax credit under the '*Crédit d'Impôt Compétitivité Emploi' ('CICE'),* (in 2016: EUR 6.6 million).

Within the framework of the allocation of CICE, HSBC France group backed the profit of the tax credit to a pool of expenses and investments dedicated to the improvement of products and services to customers as well as enhancement of the bank's efficiency. Those expenses are broken down into the following categories:

- Information and technology innovative investments: significant expenses have been engaged during the year 2017 dedicated to the development of enhanced and better integrated commercial software, notably the complete reshape of workstation in branches, faster deployment of digital tools and services to customers as well as continuous improvement of financial crime compliance processes;
- Training: Staff benefited from numerous courses during the year 2017 with certificated courses, language training courses as well as compliance and risk management;
- Premises: investments in the development and refurbishment of the branch network and headquarters, energy saving schemes.

7 Dividends paid in 2017 and 2016 and dividend per share

	31 Dec 2017		31 Dec 2016	
	EUR per share	**€m**	EUR per share	€m
First interim dividend paid for current year	**0.97**	**65**	2.00	135
Exceptional dividend	**4.45**	**300**	–	–
Dividend paid with respect to previous year	**2.00**	**135**	0.44	30
Total dividends paid	**7.42**	**500**	2.44	165

Dividends related to 2017

The Combined General Meeting of 15 May 2017 approved the proposal of the Board of Directors held on 26 April 2017 to distribute an exceptional dividend amounting for EUR 300,098,330.15, or EUR 4.45 per share. This exceptional dividend was paid on 30 May 2017 to the 67,437,827 outstanding shares at this date.

The Board of Directors held on 27 October 2017 decided the distribution of an interim dividend of EUR 0.97 per share in respect of the year 2017, to be paid to the 67,437,827 outstanding shares at this date. The interim dividend was paid on 16 November 2017.

The Board of Directors held on 20 February 2018 will propose at the Combined General Meeting, on 13 March 2018, to distribute a dividend amounting for EUR 111,946,792,82, or EUR 1.66 per share, in respect of the year 2017. This dividend, if approved by the shareholders, will be payable after deduction of the interim dividend of EUR 0.97 per share decided by the Board of Directors held on 27 October 2017 and already paid to the outstanding shares at this date.

Dividends related to 2016

The Combined General Meeting of 26 April 2017 approved the proposal of the board of Directors held on 8 February 2017 to distribute a dividend amounting for EUR 269,751,308 in respect of the year 2016. This dividend was paid on 9 May 2017 after deduction of the interim dividend of EUR 2 per share decided by the Board of Directors held on 22 July 2016 and already paid to the outstanding shares at this date.

Earnings and dividends per share

	31 Dec 2017	31 Dec 2016
	EUR	EUR
Basic earnings per share	**2.63**	4.61
Diluted earnings per share	**2.63**	4.61
Dividends per share	**6.11**	4.00

1 *Including an exceptional dividend of EUR 4.45 per share.*

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 177 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 67,437,827 (full year 2016: earnings of EUR 310 million and 67,437,827 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 67,437,827 (full year 2016: 67,437,827 shares).

At 31 December 2017, no potentially dilutive ordinary share had been issued.

Other Equity instruments

HSBC France has issued new Tier1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 200 million. The new AT1 Capital Instrument, included into the other equity instruments, is undated perpetual instrument callable by HSBC France on any interest payment dates falling five years after the date of issue.

		2017	2016
Total coupons on capital securities classified as equity	First call	**€m**	€m
Undated Subordinated additional Tier 1 instruments			
– EUR 200 million	27/11/2017	**5**	–

8 Trading assets

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties to purchase the financial instruments and are normally derecognised when sold. They are initially measured at fair value, with transaction costs taken to the income statement. Subsequently changes in their fair value are recognised in the income statement in 'Net trading income'. For trading assets, the interest is shown in 'Net Trading income'.

	31 Dec 2017	31 Dec 2016
	€m	€m
Trading assets:		
– which may be repledged or resold by counterparties	**12,101**	12,044
– not subject to repledge or resale by counterparties	**10,300**	11,545
Total trading assets	**22,401**	23,589

	31 Dec 2017	31 Dec 2016
	€m	€m
Treasury and other eligible bills	**641**	393
Debt securities	**15,784**	15,610
Equity securities	**–**	–
Loans and advances to banks	**3,948**	4,658
Loans and advances to customers	**2,028**	2,928
Total trading assets	**22,401**	23,589

Included within the above figures for HSBC France are debt securities issued by banks and other financial institutions of EUR 2,626 million (2016: EUR 1,662 million), of which EUR 617 million (2016: EUR 634 million) are guaranteed by various governments.

9 Fair values of financial instruments carried at fair value

(a) Accounting policy

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in a standard transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price.

However, sometimes the fair value will be based on other observable current market transactions for the same instrument, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, HSBC France recognises a trading gain or loss (Day 1), being the difference between the transaction price and the fair value. When significant unobservable parameters have a significant impact over the valuation of financial instruments, the initial gap between fair value issued from the measurement model and the transaction price (Day 1) is not immediately recognised in the income statement but accounted for over the lifespan of the transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC France manages a group of financial assets and liabilities according to its net market or credit risk exposure, HSBC measures the fair value of the group of financial instruments on a net basis but discloses the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria as described in Note 25.

(b) Critical accounting estimates and judgements related to financial instrument valuation

The best evidence of fair value is a quoted price on an actively traded principal market. In the event that the market for a financial instrument is not active, and the valuation technique uses only observable market data, the reliability of the fair value measurement is high. However, when valuation techniques include one or more significant unobservable market inputs, they rely to a greater extent on management judgement. In absence of observable valuation inputs, due to a lack of or a reduced volume of similar transactions, management judgement is required to assess the price at which an arm's length transaction would occur under normal business conditions, in which case management may rely on historical prices for that particular financial instrument or on recent prices for similar instruments.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument: management judgement required to assess what a market participant would regard as the appropriate premium for an instrument over the appropriate risk-free rate;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity on the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which future cash flows are estimated. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In option models, the probability of different potential future outcomes must be considered. In addition, the value of some products is dependent on more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may affect the other market factors.

(c) Control framework

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by an independent function 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. On inactive markets, direct observation of traded prices may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value. Greater weight will be 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 a valuation model, the control framework may include, as applicable, independent development or validation of the logic within valuation models, the inputs to those models, any adjustments required outside the valuation models and, 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.

(d) Determination of fair value of financial instruments carried at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, instruments designated at fair value through profit or loss, derivatives, and financial investments classified as available-for-sale (including treasury and other eligible bills, debt securities, and equity securities).

The reliability of the fair value measurement for financial instruments reported on the consolidated balance sheet at fair value is assessed according to how the fair values have been determined.

Fair values are determined according to the following hierarchy:

- Level 1 – Quoted market price: financial instruments with quoted prices for identical instruments on active markets that the group can access at the measurement date.
- Level 2 – Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments on active markets or quoted prices for identical or similar instruments on inactive markets or financial instruments valued using models where all significant inputs are observable.
- Level 3 – Valuation technique with significant non-observable inputs: financial instruments valued using models where one or more significant inputs are not observable.

The best evidence of fair value is a quoted price on an actively traded market.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of its trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which he would be willing to sell.

The fair values of financial instruments that are quoted on active markets are based on bid prices for assets held and offer prices for liabilities issued. When a financial instrument has a quoted price on an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are made.

In the event that the market for a financial instrument is not active, valuation techniques incorporate assumptions about factors that other market participants would use in their valuations, including interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. For interest rate derivatives with collateralised counterparties and in significant major currencies, the group uses a discounting curve that reflects the overnight interest rate ('OIS discounting'). On inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices necessary to measure the fair value of the instrument, requires additional work during the valuation process.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value measurement derived is more judgemental. 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 ('day 1 gain or loss') is driven by unobservable inputs. 'Not observable' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur, but it generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (consensus pricing data may, for example, be used).

In certain circumstances, primarily where debt is hedged with interest rate derivatives, the group uses fair value to measure the carrying value of its own debt in issue. Where available, the fair value will be based upon quoted prices on an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices on an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices on an active market for similar instruments. The fair value of these instruments therefore includes the effect of applying the credit spread which is appropriate to the group's liabilities. For all issued debt securities, discounted cash flow modelling is utilised to isolate that element of change in fair value that may be attributed to the group's credit spread movements rather than movements in other market factors, such as benchmark interest rates or foreign exchange rates. Then, using discounted cash flow, each security is valued using a BOR-based discount curve. The difference in the valuations is attributable to the group's own credit spread. This methodology is applied consistently across all securities.

Issued structured notes and certain other hybrid instrument liabilities are included within trading liabilities, and marked at fair value. The credit spread applied to these instruments is derived from the spreads at which the group issues structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the group are recognised in the income statement over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

(e) Breakdown of financial instruments recorded at fair value by level of fair value measurement

	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[1]	Total
At 31 December 2017	€m	€m	€m	€m	€m	€m	€m
Assets							
Trading assets	**16,380**	**5,227**	**2**	**21,609**	**792**	**–**	**22,401**
Financial assets designated at fair value	**8,040**	**199**	**54**	**8,293**	**312**		**8,605**
Derivatives	**21**	**19,461**	**380**	**19,862**	**14,545**	**299**	**34,407**
Financial investments: available-for-sale	**19,727**	**13**	**224**	**19,964**	**584**		**20,548**
Liabilities							
Trading liabilities	**23,478**	**7,082**	**268**	**30,828**	**1,608**	**–**	**32,436**
Financial liabilities designated at fair value	**2,538**	**5,027**	**–**	**7,565**	**–**		**7,565**
Derivatives	**9**	**19,853**	**53**	**19,915**	**13,314**	**444**	**33,229**
At 31 December 2016							
Assets							
Trading assets	16,001	7,055	2	23,058	531	–	23,589
Financial assets designated at fair value	6,807	199	19	7,025	280	–	7,305
Derivatives	17	28,228	363	28,608	18,759	307	47,367
Financial investments: available-for-sale	25,689	14	251	25,954	550	–	26,504
Liabilities							
Trading liabilities	14,389	8,694	246	23,329	3,139	–	26,468
Financial liabilities designated at fair value	2,562	5,902	–	8,464	–	–	8,464
Derivatives	3	27,827	37	27,867	16,146	455	44,013

1 *This column has been added in order to identify Level 3 amounts with HSBC Group subsidiaries. The remaining amounts with entities of the Group HSBC not in Level 3 are in Level 1 or 2.*

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 31 December 2017							
Transfers from Level 1 to Level 2	–	–	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	–	–
At 31 December 2016							
Transfers from Level 1 to Level 2	–	–	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	–	–

(f) Fair value adjustments

Fair value adjustments are adopted when HSBC France considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. HSBC France classifies fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to Global Banking and Markets.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Risk-related adjustments

Bid-offer

IFRS 13 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 cost would be incurred if almost 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, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, 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 credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the group may not receive the full market value of the transactions (see below).

Debit valuation adjustment ('DVA')

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the HSBC France group may default, or may not pay full market value of the transactions (see below).

Model-related adjustments

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted by HSBC France when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Credit valuation adjustment methodology ('CVA')

HSBC France calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of HSBC France, to the group's expected positive exposure to the counterparty and multiplying the result by the expected loss in the event of default. Conversely, HSBC France calculates the DVA by applying the PD of HSBC France, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the group and multiplying by the expected loss in the event of default. Both calculations are performed over the life of the potential exposure.

The derivation of a proxy takes into account the range of market practice, relevant data in this context, including CDS index and rating transition data, and CSA characteristics determined for each counterparty.

For most products, the group uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates the range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology takes into account different contractual characteristics reducing credit risk such as counterparty netting agreements and collateral agreements with the counterparty. A standard loss given default assumption of 60 per cent is generally adopted for developed market exposures, and 75 per cent for emerging market exposures. Alternative loss given default assumptions may be adopted where both the nature of the exposure and the available data support this.

For certain types of exotic derivatives where the products are not currently supported by the simulation, HSBC France adopts alternative methodologies. These may involve mapping to the results for similar products from the simulation tool or where such a mapping approach is not appropriate, a simplified methodology is used, generally following the same principles as the simulation methodology. The calculation is applied at a trade level, with more limited recognition of credit mitigants such as netting or collateral agreements than used in the simulation methodology.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises where the underlying value of the derivative prior to any CVA is positively correlated to the probability of default of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation.

During the year, HSBC France refined the methodologies used to calculate the CVA and DVA to more accurately reflect the impact of ratings downgrade triggers on credit mitigation. HSBC France reviews and refines the CVA and DVA methodologies on an ongoing basis.

Valuation of not collateralised derivatives

Historically the Group HSBC France evaluated uncollateralised derivatives by discounting estimated future cash flow at a reference interest rate such as EURIBOR or an equivalent. HSBC France now uses the OIS rate (overnight indexed swap) as the reference discounting curve for collateralised or uncollateralised derivatives. Moreover, HSBC France has adopted the funding fair value adjustment ('FFVA') which reflects the future funding exposure of any uncollateralised component at rates other than OIS rates. At 31 December 2017, the FFVA is EUR 16 million (2016: EUR 64 million).

(g) Focus Level 3

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

	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value	Derivatives	Held for trading	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
Private equity investments	**221**	**–**	**54**	**–**	**–**	**–**	**–**
Asset-backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**2**	**–**	**–**	**268**	**–**	**–**
Derivatives	**–**	**–**	**–**	**380**	**–**	**–**	**53**
Other portfolios	**3**	**–**	**–**	**–**	**–**	**–**	**–**
HSBC Group subsidiaries	**–**	**–**	**–**	**299**	**–**	**–**	**444**
At 31 December 2017	**224**	**2**	**54**	**679**	**268**	**–**	**497**
Private equity investments	251	–	19	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–
Structured notes	–	2	–	–	246	–	–
Derivatives	–	–	–	363	–	–	37
Other portfolios	–	–	–	–	–	–	–
HSBC Group subsidiaries	–	–	–	307			455
At 31 December 2016	251	2	19	670	246	–	492

Private equity

The group's private equity positions are generally classified as available for sale 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.

Asset-backed securities ('ABS')

While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For ABS, including residential mortgage backed securities, the valuation uses an industry standard model and the assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Derivatives

Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models. 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.

Examples of inputs that may be unobservable include 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.

Derivative products valued using valuation techniques with significant unobservable inputs included certain types of correlation products, such as foreign exchange basket options, equity basket options, foreign exchange interest rate hybrid transactions and long-dated option transactions. Examples of the latter are equity options, interest rate and foreign exchange options and certain credit derivatives. Credit derivatives include certain tranched CDS transactions.

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.

For assets and liabilities classified as held for trading, realised and unrealised gains and losses are presented in the income statement under 'Trading income excluding net interest income'. Fair value changes on long-term debt designated at fair value and related derivatives are presented in the income statement under 'Changes in fair value of long-term debt issued and related derivatives'. The income statement line item 'Net income/(expense) from other financial instruments designated at fair value' captures fair value movements on all other financial instruments designated at fair value and related derivatives.

Realised gains and losses from available-for-sale securities are presented under 'Gains less losses of financial investments' in the income statement, while unrealised gains and losses are presented in 'Fair value gains/(losses) taken to equity' within 'Available-for-sale investments' in other comprehensive income.

Trading liabilities valued using a valuation technique with significant unobservable inputs principally comprised equity linked structured notes which are issued by HSBC and provide the counterparty with a return that is linked to the performance of certain equity securities, and other portfolios. 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

	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value	Derivatives[1]	Held for trading	Designated at fair value	Derivatives[1]
	€m	€m	€m	€m	€m	€m	€m
At 1 January 2017	**251**	**2**	**19**	**670**	**246**	**–**	**492**
Total gains/(losses) recognised in profit or loss	**(17)**	**–**	**–**	**(4)**	**30**	**–**	**(51)**
– trading income/(expense) excluding net interest income	**–**	**–**	**–**	**(4)**	**30**	**–**	**(51)**
– gains less losses from financial investments	**(17)**	**–**		**–**	**–**	**–**	**–**
Total gains or losses recognised in other comprehensive income	**21**	**–**	**2**	**–**	**–**	**–**	**–**
– available-for-sale investments: fair value gains/(losses)	**23**	**–**	**2**	**–**	**–**	**–**	**–**
– cash flow hedges: fair value gains/(losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**(2)**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases	**21**	**–**	**33**	**–**	**–**	**–**	**2**
New issuances	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sales	**(52)**	**–**	**–**	**–**	**–**	**–**	**–**
Settlements	**–**	**–**	**–**	**(27)**	**(5)**	**–**	**27**
Transfers out	**(11)**	**–**	**–**	**(18)**	**(20)**	**–**	**(61)**
Transfers in	**11**	**–**	**–**	**58**	**17**	**–**	**88**
At 31 December 2017	**224**	**2**	**54**	**679**	**268**	**–**	**497**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec	**25**	**–**	**2**	**8**	**31**	**–**	**(41)**
– trading income/(expense) excluding net interest income	**–**	**–**	**2**	**8**	**31**	**–**	**(41)**
– loan impairment charges and other credit risk provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– gains less losses from financial investments[2]	**25**	**–**	**–**	**–**	**–**	**–**	**–**
At 1 January 2016	313	4	–	524	149	–	326
Total gains/(losses) recognised in profit or loss	(2)	(2)	(1)	156	99	–	154
– trading income/(expense) excluding net interest income	–	(2)	(1)	156	99	–	154
– gains less losses from financial investments	(2)	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income	25	–	–	4	–	–	(3)
– available-for-sale investments: fair value gains/(losses)	25	–	–	–	–	–	–
Purchases	27	–	20	–	–	–	–
New issuances	–	–	–	–	–	–	–
Sales	(115)	–	–	–	–	–	–
Settlements	–	–	–	(14)	1	–	13
Transfers out	–	–	–	(3)	(4)	–	(1)
Transfers in	3	–	–	3	1	–	3
At 31 December 2016	251	2	19	670	246	–	492
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec	5	(2)	(1)	113	130	–	8
– trading income/(expense) excluding net interest income	–	(2)	(1)	113	130	–	8
– loan impairment charges and other credit risk provisions	–	–	–	–	–	–	–
– gains less losses from financial investments[2]	5	–	–	–	–	–	–

1 Derivatives include amounts with other entities of the HSBC Group.
2 Reclassification from trading income/(expense) to gain less losses on financial investments.

Sensitivity of Level 3 fair values to reasonably possible alternative assumption

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.

	At 31 Dec 2017				At 31 Dec 2016			
	Reflected in profit or loss		Reflected in other		Reflected in profit or loss		Reflected in other	
	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]	**13**	**(13)**	**–**	**–**	4	(4)	–	–
Financial assets and liabilities designated at fair value	**3**	**(3)**	**–**	**–**	1	(1)	–	–
Financial investments: available-for-sale	**–**	**–**	**21**	**(22)**	–	–	26	(21)

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

The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions.

	Reflected in profit or loss		Reflected in other	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
At 31 December 2017				
Private equity investments	**3**	**(3)**	**21**	**(22)**
Asset-backed securities	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**
Derivatives	**13**	**(13)**	**–**	**–**
Other portfolios	**–**	**–**	**–**	**–**
At 31 December 2016				
Private equity investments	1	(1)	26	(21)
Asset-backed securities	–	–	–	–
Structured notes	–	–	–	–
Derivatives	4	(4)	–	–
Other portfolios	–	–	–	–

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 2017. A further description of the categories of key unobservable inputs is given below.

`	Fair value[1]				Full range of inputs		Core range of inputs	
	Assets	Liabilities						
At 31 December 2017	€m	€m	Valuation technique	Key unobservable inputs	Lower	Higher	Lower	Higher
Private equity including strategic investments	**275**	**–**	**See notes below**	**See notes below**	**n/a**	**n/a**	**n/a**	**n/a**
Asset-backed securities								
– CLO/CDO[2]	**–**	**–**	**Market proxy**	**Bid quotes**	**n/a**	**n/a**	**n/a**	**n/a**
– Other ABSs	**–**	**–**						
Structured notes	**2**	**268**			**–**	**–**	**–**	**–**
– Equity-linked notes	**–**	**–**	**Model-Option model**	**Equity correlation**	**–**	**–**	**–**	**–**
– Fund-linked notes	**–**	**–**	**Model-Option model**	**Fund volatility**	**–**	**–**	**–**	**–**
– FX-linked notes	**–**	**–**	**Model-Option model**	**FX volatility**	**–**	**–**	**–**	**–**
– Other	**2**	**268**						
Derivatives	**679**	**497**						
Interest rate derivatives:	**–**	**–**						
– securitisation swaps	**136**	**–**	**Model-DCF[3]**	**Prepayment rate**	**50%**	**50%**	**50%**	**50%**
– long-dated swaptions	**429**	**370**	**Model-Option model**	**IR volatility**	**14%**	**41%**	**16%**	**38%**
– other	**87**	**113**						
Foreign exchange derivatives:								
– foreign exchange options	**9**	**9**	**Model-Option model**	**FX Volatility**	**10%**	**14%**	**10%**	**14%**
Equity derivatives:	**–**	**–**						
– long-dated single stock options	**–**	**–**	**Model-Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– other	**18**	**5**						
Credit derivatives:								
– other								
Other portfolios	**3**	**–**						
Total Level 3	**959**	**765**						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised loan obligation/collateralised debt obligation.*
3 *Discounted cash flow.*

At 31 December 2016	Fair value[1] Assets €m	Liabilities €m	Valuation technique	Key unobservable inputs	Full range of inputs Lower	Higher	Core range of inputs Lower	Higher
Private equity including strategic investments	270	—	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	246			—	—	—	—
– Equity-linked notes	—	—	Model-Option model	Equity correlation	—	—	—	—
– Fund-linked notes	—	—	Model-Option model	Fund volatility	—	—	—	—
– FX-linked notes	—	—	Model-Option model	FX volatility	—	—	—	—
– Other	2	246						
Derivatives	670	492			—	—	—	—
Interest rate derivatives:								
– securitisation swaps	161	4	Model-DCF[3]	Prepayment rate	50%	50%	50%	50%
– long-dated swaptions	439	389	Model-Option model	IR volatility	9%	24%	10%	23%
– other	70	99						
Foreign exchange derivatives:								
– foreign exchange options	—	—	Model-Option model	FX Volatility	10%	14%	10%	14%
Equity derivatives:								
– long-dated single stock options	—	—	Model-Option model	Equity volatility	—	—	—	—
– other	—	—						
Credit derivatives:								
– other	—	—						
Other portfolios	—	—						
Total Level 3	942	738						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised loan obligation/collateralised debt obligation.*
3 *Discounted cash flow.*

Private equity including strategic investments

HSBC's private equity and strategic investments are generally classified as available for sale and are not traded on active markets. In the absence of an active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar quoted entities on an active market, or the price at which similar companies have changed ownership. 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. Prepayment rates are an important input into modelled values of asset-backed securities. A modelled price may be used where insufficient observable market prices exist to enable a market price to be determined directly. Prepayment rates are also an important input into the valuation of derivatives linked to securitisations. For example, so-called securitisation swaps have a notional value that is linked to the size of the outstanding loan portfolio in a securitisation, which may fall as prepayments occur. Prepayment rates vary according to the nature of the loan portfolio, and expectations of future market conditions. For example, prepayment rates will generally be anticipated to increase as interest rates rise. Prepayment rates may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historic prepayment rates, 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.

The range of prices used as inputs into a market proxy pricing methodology may therefore be wide. This range is not indicative of the uncertainty associated with the price derived for an individual security.

Volatility

Volatility is a measure of the anticipated future variability of a market price. Volatility tends to increase in stressed market conditions, and decrease in calmer market conditions. Volatility is an important input in the pricing of options. In general, the higher the volatility, the more expensive the option will be. This reflects both the higher probability of an increased return from the option, and the potentially higher costs that HSBC France may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of HSBC's long option positions (i.e. the positions in which HSBC France has purchased options), while HSBC France's short option positions (i.e. the positions in which HSBC France has sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. As a result, it is difficult to make general statements regarding volatility levels. For example, while it is generally the case that foreign exchange volatilities are lower than equity volatilities, there may be examples in particular currency pairs or for particular equities where this is not the case.

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.

The range of unobservable volatilities quoted in the table reflects below the wide variation in volatility inputs by reference market price. For example, FX volatilities for a pegged currency may be very low, whereas for non-managed currencies the FX volatility may be higher. As a further example, volatilities for deep-in-the-money or deep-out-of-the-money equity options may be significantly higher than at-the-money options as a result of 'volatility skew'. For any single unobservable volatility, the uncertainty in the volatility determination is significantly less than the range quoted above.

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 is used to value more complex instruments where the payout is dependent upon more than one market price. For example, an equity basket option has a payout that is dependent upon the performance of a basket of single stocks, and the correlation between the price movements of those stocks will be an input to the valuation. This is referred to as equity-equity correlation. There are a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations (e.g. equity-equity correlation) and cross-asset correlations (e.g. rate-rate correlation) used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Correlation may be unobservable. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships.

The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair. For any single unobservable correlation, the uncertainty in the correlation determination is likely to be less than the range quoted above.

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. For example, improving economic conditions may lead to a 'risk on' market, in which prices of risky assets such as equities and high yield bonds will rise, while 'safe haven' assets such as gold and US Treasuries will decline. Furthermore, the impact of changing market variables upon the HSBC portfolio will depend upon HSBC's net risk position in respect of each variable. For example, increasing high-yield bond prices will benefit long high-yield bond positions, but the value of any credit derivative protection held against those bonds will fall.

10 Fair values of financial instruments not carried at fair value

The table below shows the fair value of financial instruments not recognised at fair value in the balance sheet. The carrying amount of all other financial instruments equals their fair value.

		Fair value			
	Carrying value	Level 1 – Quoted market price	Level 2 – Using observable inputs	Level 3 – with significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 31 December 2017					
Assets					
Loans and advances to banks	**4,843**	**–**	**4,843**	**–**	**4,843**
Loans and advances to customers	**44,856**	**–**	**–**	**44,932**	**44,932**
Reverse repurchase agreements – non trading	**13,781**	**–**	**13,781**	**–**	**13,781**
Liabilities					
Deposits by banks	**13,297**	**–**	**13,297**	**–**	**13,297**
Customer accounts	**38,277**	**–**	**38,296**	**–**	**38,296**
Repurchase agreements – non trading	**6,586**	**–**	**6,586**	**–**	**6,586**
Debt securities in issue	**5,159**	**–**	**5,169**	**–**	**5,169**
Subordinated liabilities	**576**	**–**	**576**	**–**	**576**
At 31 December 2016					
Assets					
Loans and advances to banks	3,379	–	3,380	–	3,380
Loans and advances to customers	41,327	–	–	41,900	41,900
Reverse repurchase agreements – non trading	11,862	–	11,862	–	11,862
Liabilities					
Deposits by banks	12,061	–	12,061	–	12,061
Customer accounts	34,220	–	34,245	–	34,245
Repurchase agreements – non trading	7,592	–	7,592	–	7,592
Debt securities in issue	6,616	–	6,621	–	6,621
Subordinated liabilities	276	–	276	–	276

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or frequently revalued to current market rates:

Assets

- Cash and balances at central banks;
- Items in the course of collection from other banks;
- Endorsements and accepted bills;
- Short-term receivables within 'Other assets';
- Accrued income.

Liabilities

- Items in the course of transmission to other banks;
- Investment contracts with discretionary participation features within 'Liabilities under insurance contracts';
- Endorsements and accepted bills;
- Short-term payables within 'Other liabilities';
- Accruals.

Valuation

The fair value measurement is HSBC France'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.

The fair value of financial assets and liabilities is calculated using models maintained by HSBC France, and is based on discounting expected cash flows. The calculated fair value difference predominantly arises on loans secured on residential properties. In this product segment, the most significant fair value difference arises from early repayment options included in mortgage loans, representing the cost to the bank of the embedded option.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the group as a going concern.

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 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 are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short dated.

11 Financial assets designated at fair value through profit or loss

	31 Dec 2017	31 Dec 2016
	€m	€m
Treasury and other eligible bills	**–**	–
Debt securities	**1,081**	1,028
Equity securities	**7,521**	6,272
Securities designated at fair value	**–**	–
Loans and advances to banks	**3**	5
Total financial assets designated at fair value	**8,605**	7,305

At 31 December 2017, financial assets designated at fair value through profit or loss are mainly owned by HSBC Assurances Vie (France).

12 Derivatives

(a) Accounting policy

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices on active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. In the normal course of business, the fair value of a derivative at initial recognition is considered to be the transaction price (i.e. the fair value of the consideration given or received). However, in certain circumstances, the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, HSBC France recognises a trading profit or loss on inception of the derivative. If observable market data are not available, the initial increase in fair value indicated by the valuation model, but based on unobservable inputs, is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the inputs become observable, or when the transaction matures or is closed out.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, when the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Derivatives embedded in home purchase savings products *(Plan Epargne Logement/Compte Epargne Logement)* are some of the main embedded derivatives identified by HSBC France, and have therefore been valued using an HSBC France specific model.

All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are to be settled on the same date and on a net basis.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. When derivatives are designated as hedges, they are classified as either:

(i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

Hedge accounting

Following the HSBC Group policy, HSBC France does not use the 'carve out' arrangements under the European regulation no. 2086/2004 in relation to the accounting for macro-hedging operations.

As required in IAS 39, HSBC France documents, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Therefore it is also required to measure, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in 'Net interest income'.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability or group thereof that are attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued: the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity. Where the adjustment relates to the carrying amount of a hedged equity security, this remains in retained earnings until the disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity in other comprehensive income within the 'Cash flow hedging reserve'. Any gain or loss relating to an ineffective portion is recognised immediately in the income statement within 'Net trading income'.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the cost of the asset or liability.

Derecognition risk

When a hedging instrument no longer meets the criteria for hedge accounting, and the expected cash flows are not highly probable but remains probable, the hedging instrument is derecognised, the cumulative change in fair value recognised in Other Comprehensive Income are amortised in Income statement over the remaining maturity of the hedging instrument. When a forecast transaction is not likely to happen, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement. This derecognition risk is potentially accentuated in a low or even negative interest rate environment.

Hedge effectiveness testing

To qualify for hedge accounting, IAS 39 requires the hedge to be highly effective. At the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis and at least at each closing date.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted for assessing hedge effectiveness will depend on its risk management strategy.

In assessing effectiveness, the changes in the fair value or the cash flows of the hedged item and the hedging instrument must be expected to, or must almost fully, offset each other. For prospective effectiveness, the changes in fair value or cash flows must be expected to offset each other in the range of 90 per cent to 110 per cent. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of any derivative that does not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in 'Trading income', except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in 'Net income from financial instruments designated at fair value'.

The interests on derivatives managed in conjunction with debt securities issued by the group, which are designated at fair value are recognised in 'interest income'. All other gains and losses on these derivatives are reported in 'net income from financial instruments designated at fair value'.

Derivatives that do not qualify for hedge accounting include non-qualifying hedges for which hedge accounting was not, or could not, be applied. The size and direction of changes in fair value of hedges can be volatile from year to year, but do not alter the cash flows expected. Non-qualifying hedges operate as economic hedges of the related assets and liabilities.

(b) Use of derivatives

HSBC France transacts derivatives mainly to create risk management solutions for clients, to manage the portfolio of risks arising from client business and to manage and hedge the HSBC France group's own risks. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives (except for derivatives which are designated as effective hedging instruments as defined in IAS 39) are held for trading. The held-for-trading classification includes two types of derivative instruments: those used in sales and trading activities, and those instruments that are used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second held-for-trading category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described in more detail below.

The HSBC France group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with matching deals being used to achieve this where necessary. When entering into derivative transactions, the HSBC France group employs the same credit risk management procedures to assess and approve potential credit exposures as are used for traditional lending.

The table shows the fair value of derivatives by contract type:

	31 Dec 2017					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Foreign exchange	**3,271**	**48**	**3,319**	**(3,122)**	**(12)**	**(3,134)**
Interest rate	**44,104**	**118**	**44,222**	**(43,072)**	**(229)**	**(43,301)**
Equities	**137**	**—**	**137**	**(64)**	**—**	**(64)**
Credit derivatives	**1**	**—**	**1**	**(2)**	**—**	**(2)**
Commodity and other	**—**	**—**	**—**	**—**	**—**	**—**
Gross total fair values	**47,513**	**166**	**47,679**	**(46,260)**	**(241)**	**(46,501)**
Netting			**(13,272)**			**13,272**
Net total			**34,407**			**(33,229)**

	31 Dec 2016					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	€m	€m	€m	€m	€m	€m
Foreign exchange	5,099	16	5,115	(5,026)	(26)	(5,052)
Interest rate	53,514	330	53,844	(50,102)	(544)	(50,646)
Equities	160	—	160	(65)	—	(65)
Credit derivatives	—	—	—	(2)	—	(2)
Commodity and other	—	—	—	—	—	—
Gross total fair values	58,773	346	59,119	(55,195)	(570)	(55,765)
Netting			(11,752)			11,752
Net total			47,367			(44,013)

1 Trading derivatives

Most of the HSBC France group'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.

As mentioned above, other derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting or have not been formally designated as hedging instruments. These include derivatives managed in conjunction with financial instruments designated at fair value and also derivative which are not eligible to hedge accounting under IAS 39.

Ineffective hedging derivatives were previously designated as hedges, but no longer meet the criteria for hedge accounting.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net Trading income', except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in 'Net income from financial instruments designated at fair value', together with the gains and losses on the hedged items. Where the derivatives are managed with debt securities in issue, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Notional contract amounts of derivatives held-for-trading purposes by product type

	31 Dec 2017	31 Dec 2016
	€m	€m
Foreign Exchange	**136,979**	128,202
Interest rate	**2,755,225**	2,235,593
Equities	**17,121**	8,667
Credit derivatives	**179**	104
Total derivatives	**2,909,504**	2,372,566

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The contract amount of credit derivatives of EUR 179 million (2016: EUR 104 million) listed above consists especially of protection bought. HSBC France does not sale credit protection.

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 valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

	2017	2016
	€m	€m
Unamortised balance at 1 January	**3**	3
Deferral on new transactions	**–**	–
Recognised in the income statement during the period:		
– amortisation	**–**	–
– subsequent to unobservable inputs becoming observable	**–**	–
– maturity or termination, or offsetting derivative	**–**	–
Unamortised balance at 31 December	**3**	3

2 Hedging instruments

HSBC France uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the group 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.

At 31 December 2017 and 2016, HSBC France did not hold derivatives designated as 'Hedges of a net investment in a foreign operation'.

The table below shows notional contract amount of derivatives held-for-hedging purposes by product type:

	2017		2016	
	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	€m	€m	€m	€m
Foreign Exchange rate	**40**	**916**	63	586
Interest rate	**7,247**	**11,926**	21,137	14,661
At 31 December	**7,287**	**12,842**	21,200	15,247

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Fair value hedges

The HSBC France group'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 Available for sale ('AFS') 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.

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2017, were assets of EUR 87 million and liabilities of EUR 210 million (31 December 2016: assets of EUR 57 million and liabilities of EUR 473 million).

Gain or losses arising from fair value hedges

	2017	2016
	€m	€m
On hedging instruments	**147**	73
On hedged items attributable to the hedged risk	**(149)**	(67)
At 31 December	**(2)**	6

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a loss of EUR (2) million for the year ended 31 December 2017 (a profit of EUR 6 million for the year ended 31 December 2016).

Cash flow hedges

The HSBC France group 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.

Fair value of derivatives designated as cash flow hedges

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	€m	**€m**	€m	€m
Foreign Exchange	**–**	**(2)**	–	–
Interest rate	**79**	**(29)**	289	(97)
At 31 December	**79**	**(31)**	289	(97)

Schedule of expected cash flows

	3 months or less	More than 3 months but less than 1 year	5 years or less but more than 1 year	More than 5 years
	€m	**€m**	**€m**	**€m**
	31 Dec 2017			
Assets	**2,220**	**2,216**	**2,216**	**764**
Liabilities	**(3,149)**	**(2,818)**	**(1,648)**	**–**
Net cash inflows/(outflows) exposure	**(929)**	**(602)**	**568**	**764**
	31 Dec 2016			
Assets	6,703	4,420	3,210	2,268
Liabilities	(6,821)	(6,663)	(5,650)	(477)
Net cash inflows/(outflows) exposure	(118)	(2,243)	(2,440)	1,791

Reconciliation of movements in the cash flow hedge reserve

	2017	2016
	€m	€m
At 1 January	**(105)**	(44)
Amounts recognised directly in equity during the year	**(31)**	(30)
Amounts removed from equity and included in the income statement for the year	**85**	(64)
Deferred taxation	**(19)**	33
At 31 December	**(70)**	(105)

At 31 December 2017 the amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a loss of EUR (0.1) million (at 31 December 2016: a gain of EUR 0.4 million).

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 France has developed a model with the following main characteristics:

- the main accounting reference is IAS 39, concerning the calculation 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 2017, derivatives embedded in home purchase savings products represented a liability of EUR 5.5 million (at 31 December 2016: a liability of EUR 6.9 million).

13 Financial investments available for sale

	31 Dec 2017		31 Dec 2016	
	Book value	**Fair value**	Book value	Fair value
	€m	**€m**	€m	€m
Treasury and other eligible bills	**—**	**—**	—	—
Debt securities	**20,331**	**20,331**	26,185	26,185
Equity securities	**217**	**217**	319	319
Total financial investments	**20,548**	**20,548**	26,504	26,504

14 Assets pledged, collateral received and assets transferred

(a) Assets charged as security for liabilities

The following table shows the carrying amounts of financial assets not qualifying for derecognition and their associated liability:

	31 Dec 2017	31 Dec 2016
	€m	€m
Treasury bills and other eligible securities	**590**	330
Loans and advances to banks	**2,817**	3,502
Loans and advances to customers	**18,039**	18,008
Debt securities	**19,326**	14,083
Equity shares	**—**	—
Other	**—**	—
Total	**40,772**	35,923

The table above shows encumbered assets including those linked to TLTRO II 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.

(b) Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default was EUR 40,951 million at 31 December 2017 (EUR 34,293 million at 31 December 2016).

The fair value of financial assets accepted as collateral that have been sold or repledged was EUR 36,221 million at 31 December 2017 (EUR 29,036 million at 31 December 2016). The group is obliged to return equivalent securities.

Those transactions are made in accordance with the conditions of standard securities lending and borrowing operations.

(c) Transfer of financial assets

The HSBC France group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial asset concerned:

- full derecognition occurs when the HSBC France group transfers its contractual right to receive cash flows from the financial assets and substantially, all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks. In addition, full derecognition occurs where the contractual rights to receive the cash flows of the financial assets are retained but a contractual obligation to pay the cash flows to one or more recipients is assumed;
- partial derecognition occurs when HSBC France sells, or otherwise transfers, financial assets in such a way that some, but not substantially all, of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of HSBC France continuing involvement;
- derecognition does not occur when the group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but:
  - either, retains substantially all of the risks and rewards of ownership of the transferred asset;
  - or neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control. In this situation the financial assets are recognised on the balance sheet to the extent of HSBC France continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are (i) debt securities held by counterparties as collateral under repurchase agreements or (ii) equity securities lent under securities lending agreements.

As the substance of these transactions is secured borrowings the asset collateral continues to be recognised in full and the related liability reflecting HSBC France obligation to repurchase the transferred assets for a fixed price at a future date is recognised in deposits from banks or customers as appropriate. As a result of these transactions, HSBC France is unable to use, sell or pledge the transferred assets for the duration of the transaction. HSBC France remains exposed to interest rate risk and credit risk on these pledged instruments. 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:

	31 Dec 2017		31 Dec 2016	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
	€m	€m	€m	€m
Repurchase agreements	17,181	17,315	12,483	12,570
Securities lending agreements	2,647	2,647	2,230	2,230
Total	19,828	19,962	14,713	14,800

15 Interests in associates and partnerships

(a) Associate

At 31 December 2017, the group HSBC France consolidates under equity method only three entities on which it exercises a joint control or a significant influence. The impact on consolidated financial statements is not significant.

	Principal activity	Interest in equity	Capital
	31 Dec 2017		
HCM Holdings Ltd	**Asset Mgmt**	**51%**	**–**
HSBC Global Asset Management (Switzerland)	**Asset Mgmt**	**50%**	**–**
Service Epargne Entreprise	**Asset Mgmt**	**14.4%**	**–**
	31 Dec 2016		
HCM Holdings Ltd	Asset Mgmt	51%	–
HSBC Global Asset Management (Switzerland)	Asset Mgmt	50%	–
Service Epargne Entreprise	Asset Mgmt	14.4%	–

Although the HSBC France group 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 France as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

In the case of the entity Service Epargne Entreprise born of a partnership with other groups, the Group HSBC France takes part 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.

(b) Partnerships

In December 2016, the governance of HSBC Middle East Leasing Partnership ('MELP'), a strategic aircraft leasing arrangement between HSBC Leasing France (85 per cent) and HSBC Bank Middle East Limited (15 per cent), has been amended to move from a majority voting model toward a joint control model requiring the consent of both partners for all decisions. As per IFRS 3R, this change in governance was assimilated to a change in control, accounted for as a sale (derecognition) of the investment followed by the acquisition of a 85 per cent direct share of MELP's assets, liabilities, revenues and expenses.

As of 31 December 2017, the MELP contribution to the consolidated total assets of the HSBC France group is EUR 515 million (2016: EUR 533 million) and EUR 11.8 million (2016: EUR 10.6 million) to the consolidated income statement.

16 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.

Article R. 511-16-4, I of the French Monetary and Financial Code provides that undertakings are not required to disclose the information if these elements are already published by their parent company established within another Member State of the European Union and subject to a similar requirement.

This information will be available on HSBC's website (www. hsbc.com) by 31 December 2018. Thus, HSBC France is exempted from publishing such information on a single basis.

17 Structured entities

(a) Consolidated structured entities by HSBC France

Total assets of the HSBC France group's consolidated structured entities, split by entity type

	Conduits	Securitisations	HSBC France group managed funds	Other	Total
	€m	€m	€m	€m	€m
At 31 December 2017	–	**100**	**2,633**	**2,138**	**4,871**
At 31 December 2016	–	100	3,036	2,649	5,785

(b) 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 France 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 the group are closely monitored by senior management. The HSBC France group 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 France uses structured entities to securitise customer loans and advances that it has originated in order to diversify its sources of funding for asset origination and for capital efficiency purposes. The loans and advances are transferred by HSBC France to the structured entities for cash or synthetically through credit default swaps, and in return, the structured entities issue debt securities to investors.

HSBC France group managed funds

The HSBC France group has established a number of money market, and non-money market funds in order to offer its customer investment opportunities. When HSBC France is deemed to be acting as principal rather than agent in its role as investment manager, HSBC France will control and hence consolidate these funds.

Non-HSBC France group managed funds

HSBC France purchases and holds unit of third party managed funds in order to facilitate both business and customer needs.

HSBC France sponsored structured entities

The group 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 the relevant counterparties to a structured transaction. The group is not considered as a sponsor if the only involvement is to provide services at arm's length and it ceases to be a sponsor once it has no ongoing involvement with that structured entity.

The amount of assets transferred to and income received from such sponsored entities during 2017 and 2016 was not significant.

Other

HSBC France 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.

(c) Unconsolidated structured entities by HSBC France

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 interest.

At 31 December 2017	Securitisations €m	Group managed funds €m	Non-group managed funds €m	Other €m	Total €m
Total assets in relation to HSBC's interests in the unconsolidated structured entities	**—**	**2,905**	**1,755**	**49**	**4,709**
Trading assets	—	—	—	—	—
Financial assets designated at fair value	—	2,892	1,501	—	4,393
Loans and advances to customers	—	—	—	—	—
Loans and advances to banks	—	—	—	—	—
Financial investments	—	13	254	49	316
Other assets	—	—	—	—	—
Total liabilities in relation to the group's interests in the unconsolidated structured entities	**—**	**—**	**—**	**—**	**—**
The group's maximum exposure	**—**	**2,905**	**1,755**	**49**	**4,709**
At 31 December 2016[1]					
Total assets in relation to HSBC's interests in the unconsolidated structured entities	—	2,669	1,190	89	3,948
Trading assets	—	—	—	—	—
Financial assets designated at fair value	—	2,514	1,141	—	3,655
Loans and advances to customers	—	—	—	—	—
Loans and advances to banks	—	—	—	—	—
Financial investments	—	155	49	89	293
Other assets	—	—	—	—	—
Total liabilities in relation to the group's interests in the unconsolidated structured entities	—	—	—	—	—
The group's maximum exposure	—	2,669	1,190	89	3,948

1 *The presentation of this note has been modified to be aligned with Group. 2016 figures have been revised to be consistent with the change of presentation.*

The maximum exposure to loss from the group's interests in unconsolidated structured entities represents the maximum loss that the group could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred. They are contingent in nature, and may arise as a result of the provision of liquidity facilities and any other funding commitments provided by the group to unconsolidated structured entities.

- For commitments and guarantees, and written credit default swaps, the maximum exposure of the Group HSBC France 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 the Group HSBC France 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 the group's exposure to loss.

18 Goodwill and intangible assets

Cost	31 Dec 2017 €m	31 Dec 2016 €m
Goodwill – net book value	**235**	235
Other intangible assets – net book value	**74**	30
Present value of in force long term assurance business ('PVIF')	**457**	460
Total	**766**	725

(a) Goodwill

Goodwill arises on business combinations, including the acquisition of subsidiaries, joint ventures or associates when the cost of acquisition exceeds the fair value of HSBC France's share of the identifiable net assets, liabilities and contingent liabilities acquired. By contrast, if HSBC France's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost to acquire, the excess is recognised immediately in the income statement.

Intangible assets are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is under taken at the lowest level at which goodwill is monitored for internal management purposes. The group's CGUs are based on global businesses. Goodwill is stated at cost less accumulated impairment losses, which are charged to the income statement.

In accordance with the Accounting Standard IAS 36, HSBC France performs an impairment test at the end of each annual closing and at each evidence of impairment in value. This test is performed by comparing the carrying amount of the cash generating unit ('CGU') to its recoverable amount. If the carrying amount of the CGU exceeds its recoverable amount, an impairment loss is recognised in the income statement.

The recoverable amount of the CGU corresponds to the highest amount between the fair value less cost of sale and the value in use. On 31 December 2017, goodwill impairment tests of different CGU were performed on the basis of their value in use. The latter was determined by the so-called discounted cash flow ('DCF') approach consisting of valuing a business by updating, at the cost of equity, the cash flows available to shareholders. When it proved relevant, HSBC France used a multi-criteria approach by combining the DCF method and a comparable method. This method consists of valuing a CGU, applying different multiples to its business settings.

The choice of financial parameters reflects the long-term holding strategy of the CGU of HSBC France. The discount rate used is based on the cost of capital that the HSBC France group allocates to different CGU. The cost of capital allocated to individual CGU and held to update its future cash flows derives from a valuation model for financial assets, which itself depends on financial and economic variables, including the risk-free rate as well as a premium or discount reflecting the inherent risk of the activity assessed. These financial parameters are defined by management based on current market assessments of economic variables.

These values in use are sensitive to the cash flows projected, and to assumptions regarding the long-term sustainable pattern of cash flows. The performance of goodwill impairment tests necessarily requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used.

	Goodwill at 31 Dec 2017[1]	**Discount rate**	**Nominal growth rate beyond initial cash flow projections**	Goodwill at 31.12.2016[1]	Discount rate	Nominal growth rate beyond initial cash flow projections
	€m	**%**	**%**	€m	%	%
Commercial Banking	**169**	**9.6**	**2.0**	169	9.5	2.0
Asset Management	**66**	**7.9**	**2.0**	66	8.5	2.0
Retail Banking	**—**	**—**	**—**	—	8.5	2.0
Private Bank	**—**	**—**	**—**	—	9	2.0
Total goodwill in the CGUs listed above	**235**			235		

1 Includes customer/merchant relationships which amount to EUR 9 million for Asset Management.

At 31 December 2017, the following goodwill is carried by HSBC France. HSBC France did not record any impairment on its goodwill.

	At 31 Dec 2016	**At 31 Dec 2017**		
		Gross	**Impairment**	**Net**
	€m	**€m**	**€m**	**€m**
Commercial Banking	169	**169**	**—**	**169**
Asset Management	66	**66**	**—**	**66**
Total goodwill in the CGUs listed above	235	**235**	**—**	**235**

Commercial banking

The test did not raise any indicators of impairment.

Asset management

The test did not raise any indicators of impairment.

(b) Other intangible assets

Other intangible assets include mortgage servicing rights, computer software, trade names, customer lists, core deposit relationships, credit card customer relationships and merchant 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 2017 is as follows:

	Customer/ merchant relationships[1] €m	Internally generated software[2] €m	Purchased software €m	Other €m	Total €m
Cost					
At 1 January 2017	**—**	**36**	**95**	**15**	**146**
Additions	**—**	**49**	**—**	**—**	**49**
Disposals	**—**	**(1)**	**(8)**	**—**	**(9)**
Amount written off	**—**	**—**	**—**	**—**	**—**
Exchange differences	**—**	**—**	**—**	**—**	**—**
Other changes	**—**	**—**	**—**	**—**	**—**
At 31 December 2017	**—**	**84**	**87**	**15**	**186**
Accumulated amortisation and impairment					
At 1 January 2017	**—**	**(18)**	**(84)**	**(14)**	**(116)**
Amortisation charge for the year	**—**	**(1)**	**(4)**	**—**	**(5)**
Impairment charge for the year	**—**	**—**	**—**	**—**	**—**
Amount written off	**—**	**—**	**—**	**—**	**—**
Disposals	**—**	**1**	**9**	**—**	**10**
Exchange differences	**—**	**—**	**—**	**—**	**—**
Other changes	**—**	**—**	**(1)**	**—**	**(1)**
At 31 December 2017	**—**	**(18)**	**(80)**	**(14)**	**(112)**
Net carrying amount at 31 December 2017	**—**	**66**	**7**	**1**	**74**
Cost					
At 1 January 2016	21	18	90	16	145
Additions	—	18	8	—	26
Disposals	—	—	(1)	—	(1)
Amount written off	—	—	(2)	(1)	(3)
Exchange differences	—	—	—	—	—
Other changes	(21)	—	—	—	(21)
At 31 December 2016	—	36	95	15	146
Accumulated amortisation and impairment					
At 1 January 2016	(9)	(18)	(79)	(2)	(108)
Amortisation charge for the year	—	—	(7)	(1)	(8)
Impairment charge for the year	—	—	—	(12)	(12)
Amount written off	—	—	2	1	3
Disposals	—	—	—	—	—
Exchange differences	—	—	—	—	—
Other changes	9	—	—	—	9
At 31 December 2016	—	(18)	(84)	(14)	(116)
Net carrying amount at 31 December 2016	—	18	11	1	30

1 *The customer merchant relationships are included in the goodwill.*
2 *Include mainly internal cost linked to strategic development project.*

(c) Present value of in-force insurance business

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

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

PVIF Movements

	2017	2016
	€m	€m
At 1 January	**460**	486
Moving forward	**(68)**	(84)
Value of new business	**39**	41
Changes in assumption and others	**(4)**	77
Market impact	**13**	(83)
Experience variances	**17**	23
At 31 December	**457**	460

The PVIF moves from EUR 460 million as of 31 December 2016 to EUR 457 million as of 31 December 2017. Beyond the recurring effects related to the activity, this negative variation of EUR 3 million includes the following effects:

- The improvement of economic conditions over the year for EUR 13 million EUR;
- A negative impact of EUR 4 million related to changes in assumptions (mainly EUR – 36 million due to modelling of negative rates, EUR + 56 million due to the projection of the number of contracts using number-based lapse rates, EUR – 9 million due to the update of Ultimate Forward Rate level, EUR – 25 million due to the annual update of lapses and general expenses assumptions and EUR + 12 million due to the correction of UL management fees in the liabilities models points).

Key assumptions modification impacts over PVIF[1]

	2017	2016
Average weighted risk free rate	**1.50%**	0.99%
Average weighted risk discount rate	**2.20%**	1.84%
Expenses inflation	**1.48%**	1.66%

Risk margin over discount rate profits are[2]

	2017	2016
	€m	€m
Operational risk	**13**	13
Model risk	**15**	15
Volatility risk	**39**	68

1 *For 2017, market value future profits' discounted rate used for the PVIF is of 2.2 per cent, to which a risk margin of EUR 67 million is added. For 2016, market value future profits' discounted rate used for the PVIF is of 1.84 per cent, to which a risk margin of EUR 96 million was added.*
2 *Risk margin (model risk, operational and volatility risk) are detailed separately.*

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 in millions of Euros for HSBC Assurances Vie.

	2017	2016
+ 100 basis points shift in risk-free rate	**35**	94
- 100 basis points shift in risk-free rate	**(69)**	(191)
+ 100 basis points shift in risk-discount rate	**(27)**	(20)
- 100 basis points shift in risk-discount rate	**25**	24

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 before actions that could be taken by management to mitigate impacts and before resultant changes in policyholder behaviour.

Sensitivity of the PVIF to non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity at 31 December 2017 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 2017[1]	Effect on total equity at 31 Dec 2016[1]
	€m	€m
10% increase in mortality and/or morbidity rates	**(11)**	(6)
10% decrease in mortality and/or morbidity rates	**12**	7
10% increase in lapse rates	**(22)**	(17)
10% decrease in lapse rates	**25**	22
10% increase in expense rates	**(27)**	(30)
10% decrease in expense rates	**27**	30

1 *Impacts on profits are shown after tax in 2017 and 2016.*

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.

19 Other assets and tangible assets

(a) Other Assets

	2017	2016
	€m	€m
Prepayments and accrued income	**733**	779
Assets held for sale	**—**	—
Other assets	**294**	214
Tangible assets	**888**	814
At 31 December	**1,915**	1,807

(b) 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 to write off the assets as follows:

- freehold land is not depreciated;
- acquisition-related expenses on buildings are expensed in the year in which they occur, as are preliminary costs;
- depreciation of buildings is calculated over their estimated useful lives, which are generally between 25 and 75 years.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC France 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 and 25 years. HSBC France 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	Equipment, fixtures and fittings	Total
	€m	€m	€m
Cost or fair value			
At 1 January 2017	**684**	**627**	**1,311**
Additions at cost	**70**	**22**	**92**
Fair value adjustments	**19**	**—**	**19**
Disposals	**—**	**(35)**	**(35)**
Transfers	**—**	**—**	**—**
Exchange and other differences	**—**	**—**	**—**
Changes in scope of consolidation and other changes	**—**	**—**	**—**
At 31 December 2017	**773**	**614**	**1,387**
Accumulated depreciation			
At 1 January 2017	**(30)**	**(467)**	**(497)**
Depreciation charge for the year	**(2)**	**(35)**	**(37)**
Disposals	**—**	**35**	**35**
Transfers	**—**	**—**	**—**
Exchange translation differences	**—**	**—**	**—**
Changes in scope of consolidation and other changes	**—**	**—**	**—**
At 31 December 2017	**(32)**	**(467)**	**(499)**
Net book value at 31 December 2017	**741**	**147**	**888**
Cost or fair value			
At 1 January 2016	689	615	1,304
Additions at cost	2	30	32
Fair value adjustments	(7)	—	(7)
Disposals	—	(18)	(18)
Transfers	—	—	—
Exchange and other differences	—	—	—
Changes in scope of consolidation and other changes	—	—	—
At 31 December 2016	684	627	1,311
Accumulated depreciation			
At 1 January 2016	(28)	(448)	(476)
Depreciation charge for the year	(2)	(38)	(40)
Disposals	—	19	19
Transfers	—	—	—
Exchange translation differences	—	—	—
Changes in scope of consolidation and other changes	—	—	—
At 31 December 2016	(30)	(467)	(497)
Net book value at 31 December 2016	654	160	814

20 Trading liabilities

Trading liabilities are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties and are normally derecognised when extinguished.

These trading liabilities are initially measured at fair value. All gains and losses from a previous fair value variation of these assets and liabilities as well as for income and interest expense and related dividends, are recognised in the income statement in 'gains or losses on financial instruments'.

	2017	2016
	€m	€m
Other liabilities – net short positions	**23,466**	15,042
Deposits by banks	**4,611**	7,436
Customer accounts	**1,626**	1,669
Other debt securities in issue	**2,733**	2,321
Total at 31 December	**32,436**	26,468

In 2017, the HSBC France group recognised a negative variation of EUR (86) million in profit and loss with respect to HSBC France's own credit risk (Own Credit Spread) in the debt securities in issue (compare to a positive variation of EUR 16 million in 2016). This variation in 2017 is due to the improvement of the Own Credit Spread.

21 Financial liabilities designated at fair value through profit or loss

	2017	2016
	€m	€m
Deposits by banks and customer accounts	**122**	108
Liabilities to customers under investment contracts	**18**	18
Debt securities in issue	**7,425**	8,338
Subordinated liabilities	**—**	—
Preference shares	**—**	—
Total at 31 December	**7,565**	8,464

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2017 was EUR 79 million for the HSBC France group (at 31 December 2016: EUR 420 million).

At 31 December 2017, the accumulated amount of the change in fair value attributable to changes in credit risk for the HSBC France group was EUR 125 million (at 31 December 2016: EUR 99 million).

In 2017, HSBC France recognised a negative variation of EUR (26) million in other comprehensive income in respect of HSBC France's own credit risk (compare to a negative variation of EUR (11) million in the income statement in 2016), refer to the Note 1.1.b 'Future accounting developments'.

22 Other liabilities

	2017	2016
	€m	€m
Amounts due to investors in funds consolidated by the group	**716**	419
Share-based payments	**17**	17
Other insurance liabilities	**4**	1
Other liabilities	**368**	297
Total at 31 December	**1,105**	734

23 Provisions for liabilities and charges

HSBC France recognises a provision when the following three elements are gathered:

- 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.

	Legal proceedings and regulatory costs	Restructuring costs	Contingent liabilities and contractual commitments	Other provisions	Total
	€m	€m	€m	€m	€m
At 1 January 2017	**96**	**64**	**6**	**17**	**183**
Additions	**3**	**10**	**4**	**25**	**42**
Amounts utilised	**(72)**	**(16)**	**—**	**(16)**	**(104)**
Unused amounts reversed	**(1)**	**(7)**	**(6)**	**(4)**	**(18)**
Exchange and other movements	**—**	**—**	**—**	**—**	**—**
At 31 December 2017	**26**	**51**	**4**	**22**	**103**
At 1 January 2016	82	19	5	26	132
Additions	41	68	4	25	138
Amounts utilised	(3)	(10)	—	(23)	(36)
Unused amounts reversed	(25)	(13)	(3)	(11)	(52)
Exchange and other movements	1	—	—	—	1
At 31 December 2016	96	64	6	17	183

Information relating to legal proceedings and regulatory matters related to HSBC Group entities can be found in Note 30.

24 Subordinated liabilities

Debt securities in issue and 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 securities are designated at fair value (see Note 21).

	Book value	
	31 Dec 2017	31 Dec 2016
	€m	€m
Subordinated liabilities:		
– at amortised cost	**576**	276
– designated at fair value	**–**	–
Total	**576**	276

Subordinated borrowings issued by HSBC France

		Book value	
		31 Dec 2017	31 Dec 2016
		€m	€m
EUR 260 million	Floating rate notes maturing 2029	**260**	260
EUR 16 million	Undated subordinated variable rate notes	**16**	16
EUR 300 million	Floating rate notes maturing 2027	**300**	–
Total		**576**	276

25 Maturity analysis of financial assets and liabilities

The balances in the note below will not agree directly with those in the consolidated balance sheet as the tables incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and trading derivatives). In addition, loan and other credit-related commitments and financial guarantees and similar contracts are generally not recognised on the balance sheet.

Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice. However, in practice, short-term deposit balances remain stable as inflows and outflows broadly match and a significant portion of loan commitments expire without being drawn upon. The group therefore manages its balance sheet on both contractual and behaviouralised bases. Each operating entity determines the behaviouralisation of its products within the guidelines set out in the group's liquidity framework and as approved by its Asset and Liability Committee.

The following table provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. Asset and liability balances are included in the maturity analysis as follows:

- except for reverse repos, repos and debt securities in issue, trading assets and liabilities (including trading derivatives) are included in the 'Due not more than one month' time bucket, and not by contractual maturity because trading balances are typically held for short periods of time;
- 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;
- non-financial assets and liabilities with no contractual maturity (such as property, plant and equipment, goodwill an intangible assets, current and deferred tax assets and liabilities and retirement benefit liabilities) are included in the 'Due over five years' time bucket;
- financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction; and liabilities under insurance contracts are included in the 'Due to less than five years' time bucket. Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are classified based on the contractual notice period investors are entitled to give. Where there is no contractual notice period, undated contracts are included in the 'Due over five years' time bucket;
- loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Distribution of cash flows payable by maturity

	2017					
	On demand	Due within 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
Deposits by banks[1]	**1,415**	**2,354**	**430**	**6,299**	**2,990**	**13,488**
Customer accounts[1]	**29,813**	**3,961**	**3,956**	**151**	**440**	**38,321**
Repurchase Agreements – non trading[1]	**—**	**6,392**	**194**	**—**	**—**	**6,586**
Trading liabilities	**32,436**	**—**	**—**	**—**	**—**	**32,436**
Financial liabilities designated at fair value	**—**	**—**	**1,347**	**4,268**	**2,045**	**7,660**
Derivatives	**32,992**	**5**	**68**	**136**	**28**	**33,229**
Debt securities in issue	**—**	**635**	**3,451**	**1,072**	**—**	**5,158**
Subordinated liabilities	**—**	**—**	**—**	**304**	**287**	**591**
Other financial liabilities	**—**	**860**	**432**	**97**	**896**	**2,285**
Sub Total	**96,656**	**14,207**	**9,878**	**12,327**	**6,686**	**139,754**
Loan commitments	**23,020**	**348**	**132**	**1**	**—**	**23,501**
Financial guarantee contracts	**1,245**	**—**	**—**	**—**	**—**	**1,245**
Total at 31 December 2017	**120,921**	**14,555**	**10,010**	**12,328**	**6,686**	**164,500**
	2016					
Deposits by banks[1]	696	3,793	553	4,819	2,308	12,169
Customer accounts[1]	29,304	2,998	1,588	276	103	34,269
Repurchase Agreements – non trading[1]	—	7,479	114	—	—	7,593
Trading liabilities	26,468	—	—	—	—	26,468
Financial liabilities designated at fair value	—	1,503	2	4,214	2,775	8,494
Derivatives	43,376	5	56	513	63	44,013
Debt securities in issue	—	926	4,479	1,211	—	6,616
Subordinated liabilities	—	—	—	—	288	288
Other financial liabilities	—	818	400	84	578	1,880
Sub Total	99,844	17,522	7,192	11,117	6,115	141,790
Loan commitments	891	487	1,242	17,055	2,823	22,498
Financial guarantee contracts	590	—	—	—	—	590
Total at 31 December 2016	101,325	18,009	8,434	28,172	8,938	164,878

1 Repurchase agreements banks and customers are merged into one line.

The following table shows the financial assets and liabilities by remaining maturity at the closing date for amounts to be paid or received up to one year or over one year.

Contractual maturity is considered to be a reasonable approximation of expected maturity for the assets and liabilities analysed below. However, for items such as demand deposits and overdrafts, the contractual maturities could differ from expected maturities.

	2017						
	Due within 1 month	Due between 1 month and 1 year	Subtotal due within 1 year	Due between 1 and 5 years	Due after 5 years	Subtotal due after more than 1 year	Total
	€m	€m	€m	€m	€m	€m	
Assets							
Financial assets designated at fair value	**3**	**29**	**32**	**374**	**8,199**	**8,573**	**8,605**
Loans and advances to banks[1]	**778**	**708**	**1,486**	**3,253**	**104**	**3,357**	**4,843**
Loans and advances to customers[1]	**3,151**	**7,615**	**10,766**	**20,023**	**14,067**	**34,090**	**44,856**
Reverse repurchase agreement – non trading[1]	**8,376**	**5,405**	**13,781**	**—**	**—**	**—**	**13,781**
Financial investments	**127**	**3,367**	**3,494**	**8,709**	**8,345**	**17,054**	**20,548**
Other financial assets	**99**	**152**	**251**	**19**	**21**	**40**	**291**
At 31 December 2017	**12,534**	**17,276**	**29,810**	**32,378**	**30,736**	**63,114**	**92,924**
Liabilities							
Deposits by banks[1]	**3,150**	**1,038**	**4,188**	**6,224**	**2,885**	**9,109**	**13,297**
Customer accounts[1]	**32,065**	**5,661**	**37,726**	**146**	**405**	**551**	**38,277**
Repurchase agreements – non trading[1]	**6,031**	**555**	**6,586**	**—**	**—**	**—**	**6,586**
Financial liabilities designated at fair value	**—**	**1,347**	**1,347**	**4,242**	**1,976**	**6,218**	**7,565**
Debt securities in issue	**—**	**4,086**	**4,086**	**1,073**	**—**	**1,073**	**5,159**
Insurance contracts liabilities	**—**	**1,582**	**1,582**	**7,385**	**12,886**	**20,271**	**21,853**
Other financial liabilities	**66**	**188**	**254**	**34**	**750**	**784**	**1,038**
Subordinated liabilities	**—**	**—**	**—**	**300**	**276**	**576**	**576**
At 31 December 2017	**41,312**	**14,457**	**55,769**	**19,404**	**19,178**	**38,582**	**94,351**

1 Repurchase agreements and reverse repurchase banks and customers are merged into one line.

	2016						
	Due within 1 month	Due between 1 month and 1 year	Subtotal due within 1 year	Due between 1 and 5 years	Due after 5 years	Subtotal due after more than 1 year	Total
	€m	€m	€m	€m	€m	€m	
Assets							
Financial assets designated at fair value	5	57	62	347	6,896	7,243	7,305
Loans and advances to banks[1]	490	1,300	1,790	1,458	131	1,589	3,379
Loans and advances to customers[1]	2,675	6,541	9,216	18,987	13,124	32,111	41,327
Reverse repurchase agreements – non trading[1]	7,019	4,843	11,862	—	—	—	11,862
Financial investments	324	2,370	2,694	15,091	8,719	23,810	26,504
Other financial assets	38	135	173	13	22	35	208
At 31 December 2016	10,551	15,246	25,797	35,896	28,892	64,788	90,585
Liabilities							
Deposits by banks[1]	3,646	1,387	5,033	4,760	2,268	7,028	12,061
Customer accounts[1]	30,602	3,285	33,887	263	70	333	34,220
Repurchase Agreements – non trading[1]	7,361	231	7,592	—	—	—	7,592
Financial liabilities designated at fair value	1,503	2	1,505	4,190	2,769	6,959	8,464
Debt securities in issue	64	5,341	5,405	1,211	—	1,211	6,616
Insurance contracts liabilities	—	1,546	1,546	6,967	12,789	19,756	21,302
Other financial liabilities	83	129	212	26	445	471	683
Subordinated liabilities	—	—	—	—	276	276	276
At 31 December 2016	43,259	11,921	55,180	17,417	18,617	36,034	91,214

1 *Repurchase agreements and reverse repurchase banks and customers are merged into one line.*

Further information regarding the group's liquidity and funding management is available in the Risk Management section page 88 and following.

26 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

				Amounts not offset in the balance sheet			
	Gross amounts of recognised financial assets	Gross amounts offset in the balance sheet	Net amounts in the balance sheet	Financial Instruments	Non-Cash collateral	Cash collateral received pledged	Net amount
	€m	€m	€m	€m	€m	€m	€m
Financial assets							
Derivatives	**47,679**	**(13,272)**	**34,407**	**(27,758)**	**(149)**	**(5,187)**	**1,313**
Reverse repos, stock borrowing and similar agreements	**40,960**	**(27,179)**	**13,781**	**(3,030)**	**(10,717)**	**(34)**	**–**
Classified as:							**–**
– trading assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading assets	**40,960**	**(27,179)**	**13,781**	**(3,030)**	**(10,717)**	**(34)**	**–**
Loans and advances to customers	**242**	**(71)**	**171**	**–**	**–**	**–**	**171**
At 31 December 2017	**88,881**	**(40,522)**	**48,359**	**(30,788)**	**(10,866)**	**(5,221)**	**1,484**
Financial Liabilities							
Derivatives	**46,501**	**(13,272)**	**33,229**	**(27,759)**	**(501)**	**(4,582)**	**387**
Repos, stock borrowing and similar agreements	**33,765**	**(27,179)**	**6,586**	**(3,030)**	**(3,355)**	**(201)**	**–**
Classified as:							
– trading liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading liabilities	**33,765**	**(27,179)**	**6,586**	**(3,030)**	**(3,355)**	**(201)**	**–**
Customer accounts excluding repos	**71**	**(71)**	**–**	**–**	**–**	**–**	**–**
At 31 December 2017	**80,337**	**(40,522)**	**39,815**	**(30,789)**	**(3,856)**	**(4,783)**	**387**
Financial assets							
Derivatives	59,119	(11,752)	47,367	(36,176)	(112)	(7,726)	3,353
Reverse repos, stock borrowing and similar agreements	34,128	(22,165)	11,963	(2,341)	(9,461)	(161)	–
Classified as:							
– trading assets	101	–	101	–	(101)	–	–
– non-trading assets	34,027	(22,165)	11,862	(2,341)	(9,360)	(161)	–
– Loans and advances to customer at amortised cost	744	(109)	635	–	–	–	635
At 31 December 2016	93,991	(34,026)	59,965	(38,517)	(9,573)	(7,887)	3,988
Financial liabilities							
Derivatives	55,765	(11,752)	44,013	(36,179)	(1,204)	(6,198)	432
Repos, stock lending and similar agreements	29,757	(22,165)	7,592	(2,341)	(5,097)	(154)	–
Classified as :							
– trading liabilities	–	–	–	–	–	–	–
– non-trading liabilities	29,757	(22,165)	7,592	(2,341)	(5,097)	(154)	–
Customer accounts excluding repos	109	(109)	–	–	–	–	–
At 31 December 2016	85,631	(34,026)	51,605	(38,520)	(6,301)	(6,352)	432

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the balance sheet relate to transactions where:

- the counterparty has an offsetting exposure with HSBC 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 otherwise not satisfied; and
- cash and non-cash collateral received/pledged in respect of the transactions described above.

HSBC France offsets certain loans and advances to customers and customer accounts when the offset criteria are met and the amounts presented above represent this subset of the total amounts recognised in the balance sheet.

Of this subset, the loans and advances to customers and customer accounts included in amounts not set off in the balance sheet primarily relate to transactions where the counterparty has an offsetting exposure with HSBC and an agreement is in place with the right of offset but the offset criteria are otherwise not satisfied.

27 Called up share capital

The share capital of HSBC France at 31 December 2017 was EUR 337 million divided into 67,437,827 ordinary shares of EUR 5 each, fully paid.

	Number of HSBC France ordinary shares	Amount
		€m
At 1 January 2017	**67,437,827**	**337**
Shares issued	**–**	**–**
At 31 December 2017	**67,437,827**	**337**
At 1 January 2016	67,437,827	337
Shares issued	–	–
At 31 December 2016	67,437,827	337

28 Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security as well as contingent liabilities related to legal proceedings or regulatory matters, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements.

(a) Contingent liabilities and commitments

	31 Dec 2017	31 Dec 2016
Contract amounts	**€m**	€m
Guarantees and other contingent liabilities		
Guarantees	**4,974**	4,373
Other contingent liabilities	**–**	–
Total	**4,974**	4,373
Commitments[1]		
Documentary credits and short-term trade-related transactions	**481**	752
Undrawn formal standby facilities, credit lines and other commitments to lend [2]		
– 1 year and under	**25,846**	4,785
– over 1 year	**–**	19,879
Total	**26,327**	25,416

1 *Excluding capital commitments, which are separately disclosed below.*
2 *In 2017, the financial commitments are presented according to schedule of the first tirage.*

The above table discloses the nominal principal amounts of third-party off-balance sheet transactions. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default.

The amounts disclosed in the above table reflect the group'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 the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The total of the nominal principal amounts is not representative of future liquidity requirements.

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. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

(b) Guarantees

The group 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 the group's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the group could be required to make at 31 December were as follows:

	31 Dec 2017		31 Dec 2016	
	Guarantees in favour of third parties	Guarantees by the group in favour of HSBC entities	Guarantees in favour of third parties	Guarantees by the group in favour of HSBC entities
	€m	€m	€m	€m
Guarantee type				
Financial guarantees contracts[1]	1,245	16	590	9
Credit-related substitutes[2]	2,457	61	2,451	80
Other guarantees[3]	1,128	67	1,163	80
Total	4,830	144	4,204	169

1 *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 France to pay a third party when a customer fails to meet a commitment.*

2 *Credit-related substitutes include performance bonds and 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.*

3 *Other guarantees include bid bonds and other 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 the group'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 the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The HSBC France group had 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 the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

29 Lease commitments

Finance lease receivables

HSBC France 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.

	31 Dec 2017			31 Dec 2016		
	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 :						
– not later than one year	407	(63)	344	471	(78)	393
– later than one year and no later than five years	1,430	(157)	1,273	1,566	(185)	1,381
– later than five years	965	(87)	878	932	(87)	845
Total	2,802	(307)	2,495	2,969	(350)	2,619

30 Legal proceedings and regulatory matters relating to HSBC group entities generally

HSBC group entities, including HSBC France, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and on pages 109 and the following ones of the 2017 Registration Document, HSBC France considers that none of these matters is significant. HSBC France 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 2017.

Anti-money laundering and sanctions-related matters

In December 2012, HSBC Holdings plc (HSBC Holdings or HSBC), the bank's ultimate parent company, HSBC North America Holdings ('HNAH') and HSBC Bank USA, N.A. ('HBUS') entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act ('BSA'), Anti-Money Laundering ('AML') and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with, amongst others, the US Department of Justice ('DoJ') (the AML DPA). HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the Federal Reserve Board ('FRB').

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK Financial Conduct Authority ('FCA') to comply with certain forward-looking AML- and sanctions-related obligations. In addition, HSBC Bank USA entered into a civil money penalty consent order with the Financial Crimes Enforcement Network ('FinCEN') of the US Treasury Department and a separate civil money penalty order with the Office of the Comptroller of the Currency ('OCC').

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling USD 1.9 billion to US authorities, and undertook various further obligations, including, among others, to retain an independent compliance monitor (who is, for FCA purposes, a 'skilled person'). Under these agreements, HSBC Holdings has also certain obligations to ensure that the entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. In February 2018, the Monitor delivered its fourth annual follow-up review report. Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions issues that HSBC are reviewing further with the DoJ, FRB and/or FCA.

In December 2017, the AML DPA expired and the charges deferred by the AML DPA were dismissed. The Monitor will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation relating to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

European interbank offered rates investigations and litigation

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America (US), the European Union, Italy, Switzerland, and elsewhere 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 France 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 France. HSBC has appealed the decision.

In November 2013, HSBC (HSBC Holdings plc and HSBC Bank plc, but not HSBC France) and other banking groups which contribute to the fixing of the Euribor, were named as defendants in a putative class action filed in the US District Court for the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, amongst other things, misconduct related to the contribution to the fixing of the Euribor in violation of US antitrust laws, the US CEA, and state law of New York. In December 2016, HSBC reached an agreement with plaintiffs to resolve this action, subject to court approval. The charge corresponding to the amount of this settlement was apportioned between the HSBC entities concerned by the underlying facts, including HSBC France. The court issued an order granting preliminary approval in January 2017, and has scheduled the final approval hearing in May 2018.

Foreign exchange rate investigations and litigation

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

In August 2016, the US Department of Justice ('DoJ') indicted two now-former HSBC employees and charged them with wire fraud and conspiracy relating to a 2011 foreign exchange transaction. In October 2017, one of the former employees was found guilty after trial. In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including continuing to cooperate with authorities and implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC Holdings agreed to pay a financial penalty and restitution.

31 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.

(a) Transactions, arrangements and agreements involving Key Management Personnel

The table below sets out transactions which fall under IAS 24 'Related Party Disclosures' between HSBC France and the Key Management Personnel of HSBC France and on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

	31 Dec 2017			31 Dec 2016		
	Number of persons	Highest balance during the year[1]	Balance at 31 December[1]	Number of persons	Highest balance during the year[1]	Balance at 31 December[1]
		€k	€k		€k	€k
Loans	18	11,872	4,490	19	22,919	7,308
Credit cards	18	40	10	19	46	26
Guarantees	18	5,400	5,400	19	10,112	4,961

1 *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 the group under IAS 24 is disclosed as follows:

	31 Dec 2017	31 Dec 2016
	€k	€k
Short-term employee benefits	175	174
Post-employment benefits	73	71
Other long-term benefits	—	—
Termination benefits	47	45
Share-based payment	765	697
Total	**1,060**	987

Directors and other Key Management Personnel shareholdings and options:

	31 Dec 2017	31 Dec 2016
Number of options under employee share plans held by Directors and other Key Management Personnel[1,2]	—	—
Number of shares held by Directors and other Key Management Personnel beneficially[1,2]	1,151,362	997,315

1 *The number of key management personnel (including Directors and executive employed) was six persons at 31 December 2017 and six persons at 31 December 2016.*
2 *The HSBC shares held through the mutual fund invested in HSBC shares and forming part of group employee share ownership plan are not included.*

The Corporate governance report also includes a detailed description of Directors' remuneration (see pages 34 and the following ones).

(b) Transactions with other related parties

Transactions with other related parties of the Group

There is no significant amount due to joint ventures and associates.

Transactions detailed below include amounts due to/from HSBC France group and fellow subsidiaries of the HSBC Group.

	2017		2016	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
	€m	**€m**	€m	€m
Assets				
Trading assets	**10,551**	**796**	9,293	531
Derivatives	**18,687**	**14,546**	24,949	18,759
Loans and advances to banks	**715**	**472**	772	269
Loans and advances to customers	**20**	**12**	953	21
Reverse repurchase agreement – non trading	**2,230**	**1,031**	1,984	640
Financial investments	**586**	**584**	549	550
Other assets	**253**	**199**	322	215
Prepayments and accrued income	**56**	**56**	65	45
Financial asset designated at fair value	**344**	**312**	398	280
Liabilities				
Deposits by banks	**5,530**	**5,170**	4,521	4,521
Customer accounts	**62**	**43**	1,055	63
Repurchase agreement – non trading	**7,241**	**3,477**	6,627	3,659
Trading liabilities	**9,613**	**1,608**	8,450	3,151
Derivatives	**16,022**	**13,314**	21,808	16,146
Other liabilities	**85**	**75**	193	97
Accruals and deferred income	**119**	**88**	143	104
Financial liabilities designated at fair value	**–**	**–**	–	–
Subordinated liabilities	**560**	**560**	260	260
Guarantees	**165**	**145**	248	170
Income Statement				
Interest income[1]		**44**		43
Interest expense[1]		**71**		31
Fee income		**95**		89
Fee expense		**130**		115
Gains less losses from financial investments		**–**		–
Other operating income		**–**		–
Dividend income		**–**		–
General and administrative expenses		**112**		106

1 *Including interests on trading assets and trading liabilities for EUR 6.6 million in 2017 (2016: EUR 6.4 million) .*

32 Events after the balance sheet date

There have been no material events after the balance sheet date which would require disclosure or adjustment to financial statements of 31 December 2017.

New products and services are offered to customers of the HSBC Group in France 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 France or its subsidiaries since 31 December 2017, until the Board of Directors of 20 February 2018 approving these financial statements.

33 Group HSBC France subsidiaries, joint ventures and associates

The group classifies investments in entities which it controls as subsidiaries. The group consolidation policy is described in Note 1.2.a.

(a) Subsidiaries of HSBC France

Consolidated companies	Country of incorporation or registration	Consolidation method*	Main line of business	HSBC France group interest (%) 2017	2016
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
SCI Hervet Mathurins[6]	France	FC	Real estate company	**–**	100.0
Global Banking and Markets					
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0**	85.0
CCF Charterhouse GmbH	Germany	FC	Service company	**100.0**	100.0
Elysées GmbH	Germany	FC	Financial company	**100.0**	100.0
CCF Charterhouse GmbH & Co Asset Leasing KG	Germany	FC	Financial company	**100.0**	100.0
DEM 5	France	FC	Financial company	**100.0**	100.0
DEM 9	France	FC	Financial company	**100.0**	100.0
DEM 25[6]	France	FC	Financial company	**–**	100.0
DEMPAR 1	France	FC	Financial company	**100.0**	100.0
DEMPAR 4	France	FC	Financial company	**100.0**	100.0
Elysées Immo Invest	France	FC	Financial company	**100.0**	100.0
FDM 5	France	FC	Financial company	**100.0**	100.0
Finanpar 2	France	FC	Financial company	**100.0**	100.0
Finanpar 7	France	FC	Financial company	**100.0**	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)/compartiment[5]	France	FC	Financial company	**16.7**	16.7
SAF Baiyun	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi'er[2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang shiyi[2]	France	FC	Financial company	**–**	100.0
SAF Chang jiang shi liu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi wu	France	FC	Financial company	**100.0**	100.0
SAF Guangzhou	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang er	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang liu[2]	France	FC	Financial company	**–**	100.0
SAF Zhu jiang qi[2]	France	FC	Financial company	**–**	100.0
SAF Zhu jiang san	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi	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
SAF Zhu jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang wu[2]	France	FC	Financial company	**–**	100.0
SAF Zhu jiang yi[2]	France	FC	Financial company	**–**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entries in Perimeter.*
5 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*
6 *Dissolution without liquidation.*
7 *Flandres Contentieux is included in the scope of consolidation from 2017 onwards.*

Consolidated companies	Country of incorporation or registration	Consolidation method*	Main line of business	HSBC France group interest (%) 2017	2016
Société Financière et Mobilière (SFM)	France	FC	Financial 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	France	FC	Financial company	**100.0**	100.0
Asset Management					
CCF & Partners Asset Management Ltd	United kingdom	FC	Financial company	**100.0**	100.0
HCM Holdings Ltd	United kingdom	EM	Financial company	**51.0**	51.0
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0
Service Epargne Entreprise	France	EM	Service company	**14.4**	14.4
HSBC Global Asset Management (France)	France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG	Switzerland	EM	Financial company	**50.0**	50.0
HSBC REIM (France)	France	FC	Service company	**100.0**	100.0
Insurance					
HSBC Assurances Vie (France)	France	FC	Insurance company	**100.0**	100.0
SCI HSBC Assurances Immo	France	FC	Financial company	**100.0**	100.0
ERISA Actions Grandes Valeurs	France	FC	Financial company	**100.0**	100.0
OPCVM6 – Elysees Ecrins FCP	France	FC	Financial company	**99.9**	99.8
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 Horizon 2016-2018 FCP[3]	France	FC	Financial company	**–**	100.0
HSBC Horizon 2034-2036 A FCP3DEC[3]	France	FC	Financial company	**–**	90.2
HSBC MIX DYNAMIQUE FCP3DEC	France	FC	Financial company	**56.0**	50.2
HSBC MUL.AS.DYN.EUR.AD FCP4DEC[3]	France	FC	Financial company	**–**	63.0
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	**55.1**	51.9
HSBC SELECT DYNAMIC A FCP 2DEC	France	FC	Financial company	**71.6**	65.8
HSBC WORLD EQUITY FCP 3DEC	France	FC	Financial company	**56.6**	51.8
HSBC GIF EMERG.WEALTH A C.3DEC[4]	France	FC	Financial company	**55.0**	–
HSBC ACTIONS EUR.C FCP 3DEC[4]	France	FC	Financial company	**62.4**	–
HSBC SELECT EQUITY A FCP 4DEC[4]	France	FC	Financial company	**56.7**	–
Others					
Charterhouse Management Services Limited (CMSL)	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 (SFS)	France	FC	Investment company	**100.0**	100.0
Valeur Mobilières Elysées	France	FC	Investment company	**100.0**	100.0
Flandres Contentieux[7]	France	FC	Service company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Liquidation.*
2 *Merger.*
3 *Deconsolidation.*
4 *New entries in Perimeter.*
5 *HSBC France silo, which is 100%-owned by HSBC France and fully consolidated.*
6 *Dissolution without liquidation.*
7 *Flandres Contentieux is included in the scope of consolidation from 2017 onwards.*

(b) Main changes in the scope of consolidation

Dissolution without Liquidation

DEM 25

SCI Hervet Mathurins

Mergers[1]

SAF Chang jiang Shi 'er

SAF Chang jiang Shiyi

SAF Zhu jiang liu

SAF Zhu jiang qi

SAF Zhu jiang wu

SAF Zhu jiang yi

Deconsolidations

HSBC Horizon 2016-2018 FCP

HSBC Horizon 2034-2036 A FCP 3 DEC

HSBC MUL.AS.DYN.EUR.AD FCP4DEC

New Entries in Perimeter

HSBC GIF EMERG.WEALTH A C.3DEC

HSBC ACTIONS EUR.C FCP 3DEC

HSBC SELECT EQUITY A FCP 4DEC

1 *The entities SAF Chang jiang Shi'er, SAF Chang jiang Shiyi, SAF Zhu jiang liu, SAF Zhu jiang qi, SAF Zhu jiang wu and SAF Zhu jiang yi have been merged into HSBC Leasing (France).*

(c) Non-consolidated entities

			HSBC France group interest (%)	
Non Consolidated Companies	*Country of incorporation or registration*	Reason of non consolidation	**2017**	2016
SNC Nuku Hiva Bail	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
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 BOSQUET- AUDRAIN	France	Not consolidated in accordance with IFRS 10	**94.9**	94.9
SAS ORONA	France	Not consolidated in accordance with IFRS 10	**94.9**	94.9
SAS CYATHEAS PASTEUR	France	Not consolidated in accordance with IFRS 10	**94.9**	94.9
SCI KARUVEFA	France	Not consolidated in accordance with IFRS 10	**33.3**	33.3
SNC KEROUAN	France	Not consolidated in accordance with IFRS 10	**99.9**	100.0
SNC Les MERCURIALES	France	Not consolidated in accordance with IFRS 10	**99.9**	100.0
SNC MAKALA	France	Not consolidated in accordance with IFRS 10	**99.9**	100.0
SNC DORIQUE	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
GIE GNIFI	France	Not consolidated in accordance with IFRS 10	**25.0**	25.0
CCF Finance Moyen Orient SAL	Liban	In the course of liquidation since 2002	**99.9**	99.9
CCF Holding Liban SAL	Liban	In the course of liquidation since 2002	**75.0**	75.0

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO France – Léger Et Associés
43-47 avenue de la Grande Armée
75116 Paris

Statutory Auditor's report on the consolidated financial statements

(For the year ended 31 December 2017)

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 France

103, avenue des Champs-Elysées

75419 Paris Cedex 08

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 France for the year ended 31 December 2017.

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 as at 31 December 2017 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 those 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 applicable to us, for the period from 1 January 2017 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 or the French Code of Ethics (Code de déontologie) for Statutory Auditors.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the change in accounting method described in Note 1 to the consolidated financial statements concerning the early adoption of IFRS 9, "Financial Instruments", and relating to the presentation in the consolidated financial statements of gains and losses on financial liabilities designated at fair value from 1 January 2017.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) 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 of most significance 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 France. PVIF is recorded under balance sheet assets in HSBC France'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. In addition to annual updates to biometric and behavioural tables, which constitute observable data, the main changes in 2017 concern the detailed analysis of life insurance lapse rates, the impact of negative interest rates and revisions of the long-term volatilities for certain inputs (e.g., interest rates) used to calibrate the model's economic scenarios. These revisions led the Group to recognise a pre-tax gain of EUR 24 million for the year ended 31 December 2017 (see Note 18.c 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 the changes in the model with the key assumptions used to determine PVIF. This mainly involved: – gaining an understanding of the new model used to generate negative-rate macro-economic scenarios; – assessing the economic consistency of the changes in modelled lapse rates; – analysing quarterly 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 2017, PVIF amounted to EUR 457million versus EUR 460 million at 31 December 2016.
See Note 18.c to the consolidated financial statements.

Complex derivative financial instruments measured at fair value and classified as level 3

Description of risk	How our audit addressed this risk
HSBC France's Global Banking and Markets (GB&M) business operates in key capital markets, providing transactional and financing solutions to major corporate and institutional customers. It provides services for the origination, sale and structure of market products including derivative financial instruments, for corporates, financial institutions and major issuers. 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. These instruments are classified as level 3 in the fair value hierarchy as defined in IFRS 13. Given the multiple inputs subject to management's judgement, we deemed the measurement of level 3 derivative financial instruments to be a key audit matter for HSBC France'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 complex derivative 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; • fair value adjustments. We also sought the support of our risk modelling experts to carry out 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.

At 31 December 2017, derivative instruments classified as level 3 in the fair value hierarchy represented EUR 660 million recognised under assets and EUR 321 million recognised under liabilities.
See Notes 1.2, 9 and 12 to the consolidated financial statements

Risk of disqualification of interest rate hedges

Description of risk	How our audit addresssed this risk
HSBC France uses hedges to manage its structural balance sheet exposure to interest rate risk, specifically as regards floating rates. To qualify for hedge accounting within the meaning of IAS 39, certain criteria must be met. These include documenting the nature and objective of the hedge and regularly testing its effectiveness. Because of the complex rules governing hedge accounting, there is a risk that hedges may not meet all of the criteria set out in IAS 39, specifically in view of the low interest-rate environment prevailing in Europe. Management has identified past cases in which hedge accounting had been applied even though all of the qualifying criteria were not or were no longer met. Measures have been taken to strengthen internal control as regards the effectiveness of hedging transactions and their disclosure in the consolidated financial statements. Given the complexity of the process and size of the adjustments recognised in prior periods, we deemed accounting for hedging transactions to be a key audit matter.	We tested HSBC France's internal controls deemed key to our audit as regards hedging transactions, that are designed to: • demonstrate the effectiveness of the hedging relationships; • measure any ineffective portions to be recognised in profit or loss. In addition, we independently tested the eligibility for hedge accounting of the main cash flow hedges at 31 December 2017, as well as the ineffective portion recognised in profit or loss: • by comparing the main characteristics of the hedged items (specifically, maturities and interest rates) with those of the hedging instruments; • by verifying that the notional amounts of the hedged items exceeded those of the hedging instruments; and • by recalculating the ineffective portion.

At 31 December 2017, HSBC France recognised EUR 70 million in respect of fair value adjustments to derivatives classified as being in a hedging relationship directly in "Other reserves". *See Notes 1.2, 9 and 12 to the consolidated financial statements.*

Information systems access management

Description of risk	How our audit addresssed this risk
Due to the nature of their activities, HSBC France 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. Since 2015, 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 have been identified. This creates the risk that by omission or error, changes to financial information systems and processed data may not be appropriate. Management has strengthened the control environment for user access rights. However, certain controls had not yet been installed on all information systems. We deemed these weaknesses to constitute a key audit matter for the HSBC France 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; and • 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. Other areas were assessed independently, including password policies, security configurations and controls in place on modifications to applications and databases. We also tested controls intended to ensure that business users and developers do not have access to applications, operating systems or databases in the production environment. In view of the identified control weaknesses, 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 68 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 France estimates the risk of impairment of its portfolio and recognises any appropriate allowances. Since 2016, the cost of risk has been particularly low against a backdrop of favourable interest rates for corporates. 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. This 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 collective and individual impairment. In this context, we tested the existing controls in order to assess the relevance of the impairment losses applied. Regarding the impairment of individual loans, our tests concerned the controls in place for monitoring loans, regularly reviewing credit files and approving individual impairment. Regarding the collective impairment, we also took into account the relevance of management's judgement concerning calculation methods, economic factors, historical credit loss ratios and time periods between losses occurring and their identification, the rate of transfer of impaired loans to performing loans, and identified guarantees. 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 effective losses observed in prior periods. Regarding individual impairment, we 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.

Net outstanding customer loans for Commercial Banking stood at EUR 11.355 billion at 31 December 2017.
See Notes 1.2, 1.3 and 3 to the consolidated financial statements and pages 78 to 87 of the management report.

Information relating to the implementation of IFRS 9, "Financial Instruments - Impairment"

Description of risk	How our audit addressed this risk
IFRS 9, 'Financial Instruments', is effective for accounting periods beginning on or after 1 January 2018. It is a new and complex accounting standard whose implementation requires significant judgement and interpretation. These judgements were instrumental in the development of new models implemented to measure expected credit losses on loans carried at amortised cost. These models require a great many more inputs than previous models. The underlying data are sourced from a number of information systems that have not previously been used in the preparation of the consolidated financial statements. This increases the risk regarding the accuracy and exhaustiveness of the data used to make assumptions and operate the models. In some cases, data were unavailable and reasonable replacements were sought. HSBC France discloses information on the implementation of IFRS 9 in the notes to the consolidated financial statements. Given the material nature of the impacts of this change in accounting standard and the significance of management's judgement in estimating its impacts, we deemed this issue to be a key audit matter for the consolidated financial statements of HSBC France.	We tested the controls in place regarding the selection and approval of the appropriate accounting principles, including assessing the technical documents prepared by management as part of the implementation of IFRS 9. We also tested controls regarding the governance and development of models. With the support of our modelling experts, we tested the methods used to model material portfolios. Based on our assessment of the risks inherent in the models, we independently recalculated certain assumptions made by management. Lastly, we tested management's controls regarding the assessment of the reasonableness of the impact disclosed in the notes to the consolidated financial statements in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

See Note 1.1 to the consolidated financial statements

Verification of the information pertaining to the Group presented in the management report

As required by law and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the management report of the Board of Directors.

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

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC France by the Annual General Meetings of 23 April 2015 (PricewaterhouseCoopers Audit) and 15 May 2012 (BDO France - Léger & Associés).

As at 31 December 2017, PricewaterhouseCoopers Audit and BDO France - Léger & Associés were in the third year and the sixth year of total uninterrupted engagement, respectively.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements presenting 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 free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 of users taken 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 management of the Group.

A more detailed description of our responsibilities as Statutory Auditors in the scope of the audit of the consolidated financial statements is set out in the appendix to this report, and is an integral part hereof.

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 of most significance 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 articles L.822-10 to L.822-14 to 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, 22 February 2018

The Statutory Auditors

PricewaterhouseCoopers Audit
Nicolas Montillot
Partner

BDO France – Léger & Associés
Fabrice Chaffois
Partner

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

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 of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive 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 internal control 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 Group'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 Group 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 direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Parent company financial statements

Notes on the parent company financial statements

Profit and loss accounts 2017-2016

Income/(Expenses)	Notes	31 Dec 2017 €m	31 Dec 2016 €m
Interest and similar income	23	**1,496**	1,462
Interest and similar expenses	23	**(846)**	(769)
Finance leases income		**155**	137
Finance leases expenses		**(154)**	(137)
Income from equities and other variable instruments	24	**124**	98
Commissions received	25	**740**	775
Commissions paid	25	**(229)**	(204)
Dealing profits	26	**308**	338
Gains or losses on available-for-sale securities	27	**37**	19
Other banking operating income		**9**	18
Other banking operating expenses		**(1)**	(4)
Net banking operating income		**1,638**	1,732
General operating expenses	28	**(1,413)**	(1,484)
Depreciation, amortisation and impairment of fixed assets		**(42)**	(179)
Gross operating income		**183**	69
Cost of risk	8	**(10)**	(76)
Net operating income		**173**	(7)
Gains or losses on disposals of long-term investments	29	**15**	103
Profit before tax		**188**	97
Exceptional items		**—**	—
Income tax	30	**(16)**	12
Gains and losses from regulated provisions		**—**	8
Net income		**172**	117

Balance sheets 2017-2016

Assets

	Notes	31 Dec 2017 €m	31 Dec 2016 €m
Cash and amounts due from central banks and post office banks		**177**	107
Treasury bills and money-market instruments	4	**18,514**	22,806
Loans and advances to banks	2	**48,798**	32,069
Loans and advances to customers	3	**55,013**	50,430
Bonds and other fixed income securities	4	**8,450**	8,897
Equities and other variable income securities	4	**111**	85
Investments in subsidiaries and equity securities held for long term	5	**78**	99
Interests in affiliated parties	5	**1,358**	1,361
Finance leases	7	**465**	457
Intangible fixed assets	6	**174**	129
Tangible fixed assets	7	**196**	200
Other assets	9	**16,234**	22,129
Prepayments and accrued income	10	**40,178**	49,162
Total assets		**189,745**	187,931
Off-balance sheet items			
Financing commitments given	21	**23,349**	22,447
Guarantees and endorsements given	21	**4,989**	4,405
Securities commitments (other commitments given)		**28,727**	23,029

Liabilities

	Notes	31 Dec 2017 €m	31 Dec 2016 €m
Central bank, CCP		**50**	19
Due to credit institutions	11	**43,279**	40,160
Customer accounts	12	**46,619**	42,217
Debt securities in issue	13	**12,085**	12,335
Other liabilities	15	**43,235**	39,656
Accruals and deferred income	16	**38,695**	47,857
Provisions for liabilities and charges	14	**354**	431
Subordinated liabilities	17	**777**	276
Share capital	18	**337**	337
Additional paid-in capital	19	**16**	16
Reserves	19	**1,043**	1,043
Special tax-allowable reserves	19	**—**	—
Retained earnings[1]	19	**3,148**	3,602
Net profit of the year	19	**172**	117
Interim dividend	19	**(65)**	(135)
Total liabilities		**189,745**	187,931
Off-balance sheet items			
Financing commitments received	21	**2,782**	1,796
Guarantees and endorsements received	21	**14,720**	13,522
Securities commitments (other commitments received)		**38,822**	23,484

1 *Before proposed appropriation submitted to Annual General Meeting's approval.*

The euro conversion of foreign currency denominated balance sheet amounted to EUR 20 billion at 31 December 2017 and to EUR 22 billion at 31 December 2016.

Statement of reported net profit and movements in shareholders' funds (Recommendation of the Stock Exchange Commission – Bulletin no. 79 of February 1976)

	31 Dec 2017	31 Dec 2016
Net profit for the year	**€m**	€m
Total	**172**	117
– per share (in euros)[1,2]	**2.55**	1.73
Movements in shareholders' funds (excluding the net profit of 2017) (after appropriation of 2016 net profit)		
– change in revaluation difference	**–**	–
– transfer to reserves and change in retained earnings	**(453)**	1
– allocation of net profit for the previous year	**117**	281
– appropriation of net profit	**(570)**	(280)
– change in revaluation reserve and special tax-allowable reserves	**–**	(9)
Change in shareholders' funds	**(453)**	(8)
– per share (in euros)[1,2]	**(6.72)**	(0.11)
Proposed dividend		
total	**112**	270
– per share (in euros)[1,2]	**1.66**	4.00

1 Number of shares outstanding at year end: 67,437,827 in 2017 and 2016.
2 Based on the weighted average number of shares outstanding, dividend per share amounted to EUR 1.66 in 2017 (67,437,827 shares) and EUR 4 in 2016 (67,437,827 shares).

2017 Highlights

Business review

Net banking income was EUR 1,638 million in 2017, about 5 % lower than in 2016. It is mainly due to the impact of low interest rates in the net interest margin in the retail bank activities and notably in the retail mortgage segment against a background of continued high levels of renegotiations and early redemptions in the first half 2017. Furthermore the decline in net fees mainly result of Global Banking and Markets following high levels of advisory fees in 2016 and a decline in origination fees paid and received from other HSBC Group entities in relation to capital market transactions.

Operating expenses were EUR 1,413 million, about 5 % lower than 2016 and were well managed but affected by the the decrease of contribution to the Single Resolution Fund by EUR 15 million, including a charge in respect of the Voluntary Redundancy Plan announced in September 2016. HSBC France is continuing its programme of spending and investment for growth in respect of the strategic initiatives of HSBC Group (Costs to Achieve), notably in the digital.

Depreciation, amortisation and impairment of tangible and intangible assets were EUR 42 million compared to EUR 179 million in 2016. This change was mainly explained by the impairment of the goodwill on merger on both Retail Banking, Wealth Management and Private Bank for an amount of EUR 127 million in 2016.

Loan impairment charges were EUR 10 million compared to EUR 76 million in 2016. That reflects both the improved financial situation of businesses and HSBC France's rigorous management of credit risk. Profit before tax was EUR 188 million in 2017.

Gains or losses on disposals of long term investments was EUR 15 million compared to EUR 103 million in 2016. This change was mainly explained by the sale of Visa Europe bond to Visa Inc for EUR 108 million in 2016.

Profit attributable to shareholders was EUR 172 million compared to EUR 117 million in 2016. In respect of 2017, the Board of Directors held on 20 February 2018 will propose at the Annual General Meeting, on 13 March 2018, to distribute a dividend amounting for EUR 111,946,792,82 in respect of the 2017 results. This dividend, if approved by the shareholders, will be payable after deduction of the interim dividend of EUR 0.97 per share decided by the Board of Directors held on 27 October 2017 and already paid to the outstanding shares at this date.

On 31 December 2017, the balance sheet was EUR 190 billion compared to EUR 188 billion in 2016.

Exceptional Dividend related to 2017

The board of Directors held on 26 April 2017 proposed at the Shareholders' General Meeting held on 15 May 2017 to distribute an exceptional dividend amounting for EUR 300,098,330.15, or EUR 4.45 per share. This exceptional dividend, approved by shareholders, was distributed from retained earnings and was paid to the 67,437,827 outstanding shares on 30 May 2017.

Single Resolution Fund ('SRF') and Fonds de Garantie des Dépôts et de Résolution ('FGDR')

HSBC France contribution amounted to EUR 49 million for 2017 and EUR 7 million has been recorded under security deposits. Total of the contribution to Single Resolution Fund amounted to EUR 34 million in balance sheet.

As regard as FGDR, the association and associate certificates represent an amount of EUR 13,7 million as of end of December 2017 after retrocession of EUR 3 million in 2017, security deposits amounted to EUR 19,5 million after retrocession of EUR 3,7 million payment commitments in 2017 and the retrocession of contribution accounted in the income statement amounted to EUR 1 million in 2017.

Branches Creation

In order to be compliant to the new 'Ringfencing' law on the retail banking activities separation in United Kingdom, HSBC France opened last 14th August 2017 a branch in Greece, within the project of juridical perimeter change of the HSBC plc Greece branch. The operational transfer has been done on 1st January 2018.

HSBC France, opened last 09th October 2017 a branch in the United Kingdom. This new entity will give an ulterior possibility of choice to the european clients, in an uncertain political and economic context linked to the future exit of the United Kingdom from the European Union.

Targeted Long-Term Refinancing Operation ('TLTRO')

HSBC France took part to the fourth session of long-term refinancing operation ('TLTRO II') for an amount of EUR 600 million in March 2017. Total contribution amounted to EUR 4.1 billion.

Tier 2 issuance (Subordinated debt)

HSBC France has issued New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 300 million. The new Tier 2 Capital is Subordinated Instrument with a maturity of 10 years and with a floating rate.

Additional Tier 1 issuance (Other Equity Instrument)

HSBC France has issued New Tier 1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 200 million. The new AT1 Capital Instrument is an undated perpetual instrument callable by HSBC France on any interest payment dates falling five years after the date of issue and is a subordinated instrument (Cf. Note 17).

1 Principal accounting policies

HSBC Holding plc whose head office is located in London establishes consolidated financial statements. HSBC France is part of it and establishes consolidated financial statements in the French perimeter. The head office of HSBC France is located in Paris. These consolidated financial statements are available on the website 'www.hsbc.fr' or 'www.hsbc.com'.

The presentation of the HSBC France financial statements complies with the 2014-03 and 2014-07 ANC regulations modified by 2016-07 ANC regulation of 4 November 2016 relative to the chart of accounts and 2015-06 ANC regulation of 23 November 2015 and the accounting policies generally accepted in France and applicable to credit institutions.

(a) Recognition and depreciation/amortisation of fixed assets

HSBC France applies the principles of articles 214-1 to 214-27 Assets assessments after their first recognition of the 2014-03 ANC regulation on the depreciation, amortisation and impairment of assets.

HSBC France applies the component approach in recognising, depreciating and amortising fixed assets.

Operating and investment fixed assets

For operating and investment fixed assets, HSBC France adopted the components approach as *a minimum* floor using the following components, methods and useful lives:

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

According to 2015-06 ANC new standard of 23 November 2015 which replaces 2014-03 ANC regulation prospectively applicable from 1st January 2016, HSBC France has affected the existing goodwill resulting from previous merger in accordance with the standard's guidelines to the corresponding assets (art 745-6) and recognised it in a specific account in the relevant asset category (art 745-7). The amortisation method and period are the same as those applied to amortised assets it is linked to (see Note 6 page 209 and following).

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 leaser

The assets held under the leasing activity are recognised in accordance with the French Urgent issues Committee of the CNC recommendation 2006-C of 4 October 2006 relating to the interpretation of CNC recommendation 2004-15 of 23 June 2004 relating to the definition, recognition and valuation of assets excluding from individual company accounts lease contracts in the sense of IAS 17 from the scope of articles 211-1 to 224-4 of 2014-03 ANC regulation. Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

The depreciation 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 operating leases are recognised as an expense on finance lease or operating lease.

In financial accounting, the financial contracts outstanding is substituted to net fixed assets leased. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the 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 account securities

Trading accounts securities are those securities traded on an active market originally acquired or sold with the intention that they will be resold or bought back within short timescale and are held for market activities or for the specialised management of the trading portfolio.

Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at market price, and changes in value are recognised through profit or loss.

Trading securities are measured mainly on the basis of quoted prices in an active market. However, if a market becomes inactive, the bank uses measurement techniques based on observable market inputs. In this case, an element of judgement is involved in determining fair value.

Available-for-sale securities

Available-for-sale 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, 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. The market value of equity and similar securities is represented by quoted prices at 31 December for listed securities and by probable trading prices for unlisted securities. The market value of fixed-income securities is the quoted price on the last working day of the period.

Unrealised losses give rise to the recognition of an impairment.

Realised or unrealised gains or losses on hedging instruments are taken into account by instrument for the calculation of any impairment.

Held-to-maturity securities

Fixed-income securities that were acquired for holding long term, and in principle to maturity, are categorised as held-to-maturity securities.

Portfolio activity securities are recognised on the date of acquisition 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.

Where the acquisition price of fixed income securities is less than the redemption price, the difference is recognised in income over the residual life of the securities.

In the event of counterparty risk, impairment is charged.

Portfolio activity securities

This category regroups investments made under normal arrangements with the sole objective of making medium-term capital gains with no intention of investing 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.

The methods for assessing value-in-use are set out below.

Other long-term securities

'Other long-term securities' are equity shares and similar securities that HSBC France 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 set out below.

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;
- movements in market prices for listed companies and for interests in subsidiaries and associates consideration of the specific relationships that may exist between HSBC France 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, except for capital gains realised as part of restructuring operations, which are recognised as exceptional items.

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 effect 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 treated as financing transactions, with the counter-entries to cash movements being receivables or payables, depending on whether they involve stock lending or borrowing. Income and expenses received or borne by the transferee or transferor are recognised as interest.

Securities received or given under 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.

Similar treatment is applied to 'Buy and sell back' and 'Sell and buy back' transactions.

Bonds versus bonds

Bonds versus bonds transactions are recognised in accordance with the principles set out in the article 2361-2 of 2014-07 ANC regulation.

Off-balance sheet repos and reverse repos

In accordance with articles 2371-4 'measured at cost' of 2014-07 ANC regulation, repo transactions recorded in off-balance sheet between the trade date and the settlement/delivery date are shown under 'Securities Commitments'.

(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, even receivables with collateral, with a probable or certain risk of non-recovery, in full or in part.

Loans and receivables are classified according to HSBC France'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 unrecoverable loans not yet written off, have a rating of 10. External ratings do not have a direct influence on loan classification, except that a loan whose external rating reflects a position of default will be classified as 'non-performing' other than in exceptional circumstances.

The following are therefore categorised as non-performing loans:

- receivables overdue for more than three months for all types of loans and equipment leases, with this period rising to more than six months for property loans or leases and more than nine months for loans to local government bodies;
- receivables with known risk criteria;
- receivables which, before expiry of these time limits, appear to be at risk (insolvent administration, liquidation or personal bankruptcy, etc.);
- receivables deriving from debt restructuring for which the debtor is again in default.

HSBC France 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 France;
- or the debtor is notified that the amount outstanding exceeds a limit set by HSBC France under its internal control system;
- or the debtor withdraws amounts without overdraft authorisation.

The downgrade to non-performing loans immediately applies to all amounts outstanding and commitments for that debtor that are in the same category, on the 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, HSBC France 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 and, in the case of restructured loans, the counterparty risk has been eliminated.

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 risk of non-recovery assessed 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.

Expected future cash flows are determined on the basis of an individual review of the customer's position, including the existence or probability of a collective procedure against the customer, as well as the value and liquidity of any guarantees or collateral. The discount rate used is the original effective interest rate for fixed-rate loans and the last known contractual rate for variable-rate loans.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on receivables that had been written off are recognised in the 'Cost of risk' line.

Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis. Impairment is individually assessed.

Discount on restructured debt

In application of articles 2221-5 and 2231-3 of the 2014-07 ANC regulation, HSBC France applies a specific system for dealing with restructured debt, when they have a significant impact.

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 flows of capital 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 remainder of the period that the debt has to run.

Application of the effective interest rate

HSBC France has applied the articles 2111-1 to 2171-1 of the 2014-07 ANC regulation. HSBC France has recognised lending fees and costs on a time-apportioned basis, with effect to 1 January 2010.

(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: certificates of deposit, interbank market securities, tradable debt securities, bonds and similar securities. This category does not include any 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.

Issue or redemption premiums on bonds are amortised on an actuarial basis over the life of the bond. Issue expenses are deferred 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 France has opted to adopt ANC recommendation 2013-02 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC France provides some of its employees post-employment benefits such as pension plans, termination payments.

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 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 charged to 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 France'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

CEL home ownership accounts and PEL home ownership plans 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 France 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

The HSBC Group share plan is a performance reward plan for retaining high-achieving employees.

HSBC France has not entered into any specific arrangements for share-based payments. It benefits from HSBC Holdings plc stock option plans (hereafter referred to as 'HSBC share plans'), which set up awards of options and shares.

In 2005, the HSBC Group conducted an in-depth review of its policy for awarding options and shares to its employees. The new arrangements for free option and share plans were submitted to its Annual General Meeting in May 2005. These arrangements introduced a French sub-plan (Schedule 3 of the general rule), which respected 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', which aim the Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subject to a review to comply with local social and tax rules.

Since 2006, the HSBC Group set up free share award plans for certain employees, under which a fixed number of HSBC Holdings plc shares are awarded. The shares vest in the employees' ownership two or three years after they are awarded, conditional on continued employment within the HSBC Group.

No cover arrangements were put in place for the plans granted in 2009 and onwards by HSBC France. Delivery of the shares is therefore made by purchasing the shares on the market, at the plan expiry date at the latest.

In accordance with the article 624-1 of the 2014-03 ANC regulation:

- the expense is recognised on a straight-line basis over the vesting period with the counter-entry going to a provision account which is cleared on final employee vesting. The measurement of the expense is based on assumptions on the number of beneficiaries leaving and on performance conditions;
- the provision recognised is based on the closing quoted price of the HSBC Holdings plc stock.

HSBC Group share option plans

The HSBC Group Share Option Plan was a long-term incentive plan available to certain Group employees between 2000 and 2005. The aim of the plan was to raise awareness of the best-performing employees about value-creation objectives for shareholders. The options were awarded at market value and could normally be exercised from the third year and up to the tenth anniversary of being awarded, subject to vesting conditions.

HSBC Group share options without performance conditions were granted between 2001 and 2005 to certain HSBC Group employees.

Finally, share options with performance conditions were granted in 2005 under the HSBC Group Share Plan to Senior Executives in France. The award of these options is combined with a bonus to be paid at the exercise date of the options for an amount equal to the exercise price of the options awarded. These share options are subject to a double Corporate Performance Condition, which consists of an absolute Earnings Per Share measure and a Total Shareholder Return measure, based on the HSBC Group's ranking against a comparative group of 28 major banks. The options vest on expiry of a period of three years and can be exercised up to the fourth anniversary of the date of grant, after which they become void.

(g) Foreign exchange position

With the exception of structural foreign exchange positions valued at historical cost, the asset and liability foreign exchange positions are restated at the exchange rates applicable at the period end. The resulting gains or losses are included in operating banking income or expenses.

(h) Forward foreign exchange contracts

Forward exchange contracts that are open at the closing of the period and hedged with spot transactions are valued at the spot rate at the period end. Differences between spot and forward rates calculated on close out 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 France 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 France 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 market or similar within the meaning of the regulation 88-02 modified by CRBF, 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 terms (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.

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.

In many market activities, the contracts negotiated by HSBC France are revalued at market conditions after the date of the trade.

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 base page 13 and following of the management report.

2 Loans and advances to banks

	31 Dec 2017	31 Dec 2016
	€m	€m
On demand deposits	**29,845**	11,875
Term deposits	**18,901**	20,170
≤ 3 months	**13,954**	16,049
> 3 months and ≤ 1 year	**1,384**	2,254
> 1 year and ≤ 5 years	**3,327**	1,604
> 5 years	**236**	262
Accrued interest	**52**	25
Total	**48,798**	32,069
Of which securities received under repurchase agreements	***26,580***	*20,857*
Of which subordinated loans	***45***	*62*

3 Customer loans

Outstanding at 31 December

Breakdown of outstanding loans by type

	31 Dec 2017	31 Dec 2016
	€m	€m
Commercial loans	**1,525**	1,498
Ordinary accounts - debit balances	**1,411**	1,101
Other customer facilities	**52,077**	47,832
Total	**55,013**	50,430
– *of which:*		
eligible loans for European Central Bank or Banque de France refinancing	***14,312***	*14,537*

Breakdown of outstanding loans by quality

	31 Dec 2017				31 Dec 2016
	Performing loans	Non-performing loans	Impairment on non-performing loans	Total	Total
	€m	€m	€m	€m	€m
Retail loans	**14,130**	**199**	**(62)**	**14,267**	13,362
Financial customer loans	**1,628**	**–**	**–**	**1,628**	1,527
Non-financial customer loans	**24,328**	**727**	**(398)**	**24,657**	22,197
Securities received under repurchase agreements	**14,380**	**–**	**–**	**14,380**	13,269
Accrued interest	**79**	**1**	**–**	**81**	75
Total	**54,546**	**927**	**(460)**	**55,013**	50,430
– *of which:*					
subordinated loans				***1***	*1*
gross non-performing loans				***333***	*506*
gross impaired loans				***594***	*638*
impairment on gross non-performing loans				***(75)***	*(131)*
impairment on gross impaired loans				***(385)***	*(408)*
restructured loans				***121***	*157*

Breakdown of outstanding loans by remaining contractual maturity

	31 Dec 2017	31 Dec 2016
	€m	€m
Repayable on demand	**8,618**	5,367
Term deposits	**46,314**	44,988
≤ 3 months	**7,728**	9,742
> 3 months and ≤ 1 year	**6,709**	5,605
> 1 year and ≤ 5 years	**18,776**	17,499
> 5 years	**13,101**	12,142
Accrued interest	**81**	75
Total	**55,013**	50,430

Breakdown by business sector

	31 Dec 2017 €m	31 Dec 2016 €m
Retail	**14,429**	13,530
Industrial	**1,813**	1,807
Commercial and Services	**11,041**	9,918
Real estate	**4,595**	4,328
Finance	**16,209**	14,912
Others	**6,927**	5,936
Total	**55,013**	50,430

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities

	31 Dec 2017 Carrying amount €m	31 Dec 2016 Carrying amount €m
Treasury bills and other eligible bills	**18,514**	22,806
Trading account securities	**14,651**	15,399
Available-for-sale securities	**3,846**	7,377
Held-to-maturity securities	**—**	—
Accrued interest	**16**	31
Debt securities	**8,450**	8,897
Trading account securities	**4,968**	3,804
– bonds and other quoted securities	**4,968**	3,804
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Available-for-sale securities	**3,096**	4,696
– quoted bonds	**3,090**	4,696
– unquoted bonds, interbank market securities and tradable debt securities	**6**	—
Held-to-maturity securities	**370**	370
– quoted bonds	**370**	370
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Accrued interest	**16**	27
Of which: subordinated debt	***270***	*270*
Equity shares and similar & portfolio equities	**111**	85
Trading account securities	**—**	—
– quoted shares	**—**	—
– unquoted shares and similar	**—**	—
Available-for-sale securities	**8**	8
– quoted shares	**—**	—
– unquoted shares and similar	**8**	8
Portfolio activity securities	**104**	78
– quoted portfolio activity shares	**—**	—
– unquoted portfolio activity shares	**104**	78
Total	**27,075**	31,788

Breakdown by remaining contractual maturity of treasury bills and government bonds

	31 Dec 2017 €m	31 Dec 2016 €m
Treasury bills and other eligible bills		
≤ 3 months	**2,528**	2,374
> 3 months and ≤ 1 year	**2,149**	1,092
> 1 year and ≤ 5 years	**5,608**	10,469
> 5 years	**8,213**	8,840
Accrued interest	**16**	31
Total	**18,514**	22,806
Debt securities		
≤ 3 months	**2,518**	2,358
> 3 months and ≤ 1 year	**816**	509
> 1 year and ≤ 5 years	**3,434**	4,714
> 5 years	**1,667**	1,289
Accrued interest	**16**	27
Total	**8,450**	8,897

Estimated value of the portfolio of available-for-sale and portfolio business securities

	31 Dec 2017		31 Dec 2016	
	Net carrying	**Estimated**	Net carrying	Estimated
	€m	**€m**	€m	€m
Treasury bills and other eligible bills	**3,846**	**3,976**	7,376	7,733
Debt securities	**3,096**	**3,125**	4,696	4,799
Equity shares and similar and other portfolio equities	**111**	**131**	85	110
Total available-for-sale and portfolio activity securities (excluding related receivables)	**7,054**	**7,232**	12,158	12,642

The available-for-sale securities 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 1 b on pages 200 and following.

Unrealised gains and losses in available-for-sale and portfolio business securities

	31 Dec 2017		
	Before provisions	**Provisions**	**Net amount**
	€m	**€m**	**€m**
Unrealised gains in available-for-sale and portfolio business securities[1]	**187**	**–**	**188**
treasury bills and other eligible bills	**133**	**–**	**133**
bonds and other fixed-income securities	**35**	**–**	**35**
equity shares and similar & portfolio equities	**20**	**–**	**20**
Unrealised losses in available-for-sale and portfolio business securities[1]	**13**	**9**	**4**
treasury bills and other eligible bills	**8**	**5**	**3**
bonds and other fixed-income securities	**2**	**1**	**1**
equity shares and similar & portfolio equities	**3**	**3**	**–**

1 *Available derivatives of partners cover EUR -123 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 net 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 42 million in 2017 and to EUR 91 million in 2016.

No security was transferred from a portfolio to another portfolio in 2017 or in 2016.

5 Investments in subsidiaries and equity securities held for long term

	31 Dec 2017 Net carrying amount €m	31 Dec 2016 Net carrying amount €m
Interests in subsidiaries and associates	**71**	88
Listed securities	**—**	—
– banks	**—**	—
– others	**—**	—
Non-listed securities	**71**	88
– banks	**45**	45
– others	**25**	43
Other long-term securities	**7**	11
Listed securities	**—**	—
– banks	**—**	—
– others	**—**	—
Non-listed securities	**7**	11
– banks	**—**	—
– others	**7**	11
Interests in group companies	**1,358**	1,361
Listed securities	**—**	—
– banks		—
– others		—
Non-listed securities	**1,358**	1,361
– banks	**563**	565
– others	**795**	796
Accrued interests		—
Total (including the 1976 statutory revaluation)	**1,436**	1,460

	31 Dec 2017 €m	31 Dec 2016 €m
Gross amounts at 1 January (excluding advances and accrued interests)	**1,572**	1,791
Changes in the year:		—
– acquisitions of securities/share issues	**3**	8
– disposals/capital reductions[1]	**—**	(223)
– effect of foreign exchange differences	**(1)**	(3)
– other movements/merger[2]	**(24)**	—
Gross amounts at 31 December (excluding advances and accrued interests)	**1,551**	1,572
Impairments at 1 January	**(113)**	(125)
Changes in the year:		—
– new allowances	**(3)**	(7)
– release of allowances no longer required	**1**	19
– other movements		—
– effect of foreign exchange differences		—
Impairment at 31 December	**(115)**	(113)
Accrued interests	**—**	—
Net book value including accrued interests	**1,436**	1,460

1 *Relate mainly to retroactive merger on 01/01/2016 for Société Immobilière Malesherbes Anjou for EUR 49 million, to the merger of FDM6 for EUR 129 million, to the merger of SAF Palissandre for EUR 42 million and to reversal of FGDR for EUR 3 million in 2016.*

2 *Relate mainly to reversal of provisions for EUR 17 million following the retroactive merger of Hervet Mathurin.*

6 Intangible fixed assets

	31 Dec 2017 €m	31 Dec 2016 €m
Gross amounts at 1 Jan	**526**	511
Changes in the year:	**–**	–
– transfers and other movements	**–**	(7)
– fixed asset acquisitions[1]	**50**	26
– fixed asset disposals and other changes[2]	**(20)**	(4)
Gross amounts value at 31 Dec	**555**	526
Amortisation at 1 January	**397**	265
Changes in the year:	**–**	–
– charges for the period for amortisation and impairment[3]	**5**	132
– transfers and other movements	**–**	–
– fixed asset sales, disposals and other changes	**(20)**	–
Amortisation at 31 December	**382**	397
Net book value of fixed assets at 31 Dec	**174**	129

1 *Relate mainly to the internal costs on strategic initiatives.*

2 *Relate mainly to disposals of software totally amortized.*

3 *In 2016, relate mainly to the impairment of goodwill on merger of HSBC Hervet and HSBC Private Bank France for EUR 127 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).

According to the article 745-3 of 2015-06 ANC regulation, a goodwill, corresponding to the difference between the shares' book value of the merged company and the net asset value transferred, was recognised on the merger of HSBC Hervet with HSBC France in 2008, of HSBC Private Bank France with HSBC France in 2011 and SI Malesherbes Anjou with HSBC France in 2016.

In accordance with the article 745-7, goodwill is written back through profit or loss when the assets to which it was affected are realised.

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).

Attributed to goodwill on merger

	Gross amounts at 1 Jan 2017	Increases	Decreases	Carrying amounts at 31 Dec 2017
Intangible assets	**27.3**	**–**	**–**	**27.3**
Tangible assets	**6.6**	**–**	**0.6**	**6.0**
Financial assets	**0.2**	**–**	**–**	**0.2**
Total	**34.1**	**–**	**0.6**	**33.5**

Concerning HSBC Hervet

The goodwill on merger, amounting initially to EUR 140 million, was attributed proportionately to the unrealised gains (net of tax), without being reflected in the accounting records, to the following items:

The unrealised gain on the Baecque Beau HSBC securities	48
Unrealised gains in fixed assets	10
Unrealised gains in securities	–
Purchased goodwill (no attribution)	82
Total	**140**

At the end of 2017, because of the realisation of some assets (arising mainly from the merger between HSBC de Baecque Beau and HSBC France in 2008), according to the buildings amortisation and after the goodwill impairment for EUR 64 million, the remaining goodwill is about EUR 23.3 million at 31 December 2017.

Concerning HSBC Private Bank France

At the end of 2017, after impairment of the goodwill for an amount of EUR 63 million, the remaining goodwill was about EUR 8.8 million.

Concerning Société Immobilière Malesherbes Anjou

Société Immobilière Malesherbes Anjou merged with HSBC France in September 2016. The goodwill affected to the buildings was about EUR 3.5 million and EUR 1.4 million after buildings amortisation.

7 Tangible fixed assets

	31 Dec 2017	31 Dec 2016
	€m	€m
Gross amounts at 1 Jan	**839**	824
Changes in the year:	**–**	–
– transfers and other movements	**–**	7
– fixed asset acquisitions[1]	**43**	37
– fixed asset disposals and other changes[2]	**(57)**	(29)
Carrying amount at 31 Dec	**825**	839
Depreciation at 1 January	**639**	623
Changes in the year:	**–**	–
– charges for the period for depreciation and impairment	**46**	44
– transfers and other movements	**–**	–
– fixed asset disposals and other changes	**(56)**	(28)
Depreciation at 31 December	**629**	639
Carrying amount at 31 Dec	**196**	200

1 *Relate mainly to the merger of Hervet Mathurin for EUR 21 million, and branches renovations for EUR 17 million.*

2 *Relate mainly to write off on hardware, furniture and installations.*

Breakdown of tangible fixed assets by type

	31 Dec 2017	31 Dec 2016
	€m	€m
Operating land and buildings	**47**	38
Non-operating land and buildings	**1**	1
Other tangible assets	**147**	161
Carrying amount at 31 Dec	**196**	200

Leasing and renting with buy option

	31 Dec 2017	31 Dec 2016
	€m	€m
Assets under construction	**17**	29
Gross values[1]	**784**	706
Amortisation	**(336)**	(279)
Related loans	**1**	–
Total	**465**	457

1 *Main assets in 2017: road assets for EUR 346 million, public building and construction for EUR 83 million, machine tools for EUR 64 million.*

At 31 December 2017, the financial outstanding amounts to EUR 434 million (EUR 418 million in 2016) and the negative unearned finance income before deferred tax to EUR 57 million (EUR 57 million in 2016).

8 Loan impairment

	Balance at 31 Dec 2016 €m	Charges €m	Utilised releases €m	Available releases €m	Other changes €m	**Balance at 31 Dec 2017 €m**
Impairment on interbank and customer non-performing loans (excluding doubtful interest)[1]	539	73	(79)	(67)	(6)	**461**
Impairment on securities	1	–	–	–	–	**1**
Provisions for commitments by signature	5	4	–	(5)	–	**4**
Total of impairment and provisions recognised in cost of risk	544	77	(79)	(72)	(6)	**465**
1 of which discounting effect on impaired loans recognised in net operating income					*(6)*	
of which effect on exchange rate variation					–	

Loan impairment

	31 Dec 2017 €m	31 Dec 2016 €m
Net impairment charge for the period:		
– interbank and customer non-performing and impaired receivables (excluding doubtful interest)[1]	**(14)**	(79)
– counterparty risk on securities	**–**	–
– commitments by issuer[2]	**1**	–
– recoveries of amounts previously written off	**3**	3
Total cost of risk[3]	**(10)**	(76)
– *of which:*		
1 Unprovided losses on non-performing and impaired receivables.	***(8)***	*(17)*
2 Unprovided losses on commitments by issuer.	***–***	*–*
3 Losses hedged by provisions.	***(79)***	*(113)*

9 Other assets

	31 Dec 2017 €m	31 Dec 2016 €m
Securities transactions settlement accounts	**717**	487
Sundry debtors and other receivables	**15,517**	21,642
Total	**16,234**	22,129

10 Prepayments and accrued income

	31 Dec 2017 €m	31 Dec 2016 €m
Items in course of collection from other banks	**378**	400
Other prepayments and accrued assets[1]	**39,800**	48,762
Total	**40,178**	49,162

1 Including mark-to-market on derivatives instruments for EUR 39,594 million in 2017 and EUR 48,287 million in 2016.

11 Treasury and interbank transactions

Deposits by banks

	31 Dec 2017 €m	31 Dec 2016 €m
On demand deposits	**2,495**	2,476
Term deposits	**40,744**	37,599
≤3 months	**27,664**	26,932
>3 months and ≤ 1 year	**896**	515
>1 year and ≤5 years	**8,301**	5,903
>5 years	**3,884**	4,250
Accrued interest	**40**	86
Total	**43,279**	40,160
– *of which: securities given under repurchase agreements*	***26,001***	*22,212*

12 Customer accounts

Outstanding at 31 December

Breakdown of customer credit balances by type of deposit

	31 Dec 2017 €m	31 Dec 2016 €m
On demand deposits	**22,686**	22,104
Special demand accounts	**7,089**	7,022
Special term accounts	**709**	696
Term accounts	**8,351**	4,837
Total customer deposits (excluding repurchase agreements)	**38,835**	34,659
Securities given under repurchase agreements	**7,765**	7,545
Accrued interest	**19**	13
Total customer credit balance accounts	**46,619**	42,217

Breakdown of customer credit balances by remaining contractual maturities

	31 Dec 2017 €m	31 Dec 2016 €m
On demand deposits	**29,775**	29,126
Term deposits	**16,826**	13,077
≤3 months	**12,164**	10,970
>3 months and ≤1 year	**3,894**	1,589
>1 year and ≤5 years	**246**	342
>5 years	**523**	177
Accrued interest	**19**	13
Total	**46,619**	42,217

13 Bonds and other fixed income securities

	31 Dec 2017 €m	31 Dec 2016 €m
Certificates of deposit (including accrued interest)	**–**	–
Interbank market securities and tradable debt securities	**5,129**	5,182
Bonds	**6,929**	7,130
Accrued interest	**27**	23
Total	**12,085**	12,335

Breakdown of debt securities by maturity

	31 Dec 2017 €m	31 Dec 2016 €m
Debt securities	**12,058**	12,312
≤3 months	**648**	1,020
>3 months and ≤1 year	**4,947**	4,645
>1 year and ≤5 years	**3,710**	4,772
>5 years	**2,753**	1,875
Accrued interest	**27**	23
Total	**12,085**	12,335

Issuances premium yet paid off are EUR 4 million at 31 December 2017 and EUR 6 million at 31 December 2016.

14 Provisions

	Balance at 31 Dec 2016	Charges	Release for written off	Available releases	Other movements	**Balance at 31 Dec 2017**
	€m	€m	€m	€m	€m	**€m**
Provisions for commitments by signature and disputes	94	5	(70)	(5)	—	**23**
Other provisions[1]	337	81	(71)	(14)	—	**331**
Total	431	85	(141)	(19)	(1)	**354**

1 Mainly employee benefits provision (see Note 20 'Pensions, post-employment benefits'), share-based payment provision (see the comments of Note 28 'General operating expenses') and restructuring provision.

Provision on PEL/CEL home ownership products

	31 Dec 2017				
	PEL				
	≤ 4 years	**> 4 years and ≤ 10 years**	**> 10 years**	**Total**	**CEL**
	€m	**€m**	**€m**	**€m**	**€m**
Amounts collected	**239**	**112**	**344**	**694**	**95**
Outstandings collected	**—**	**—**	**—**	**(1)**	**(2)**
Provisions	**(4)**	**(1)**	**(1)**	**(5)**	**—**
Allocation to provisions/reversal	**1**	**—**	**—**	**1**	**—**

15 Other liabilities

	31 Dec 2017	31 Dec 2016
	€m	€m
Securities transactions settlement accounts	**114**	168
Sundry creditors[1]	**5,489**	7,959
Short position and securities received under repurchase agreements confirmed resold	**37,633**	31,528
Total	**43,235**	39,656

1 Of which deposits on derivatives received in 2017: EUR 5,426 million and EUR 7,891 million in 2016.

16 Accruals and deferred income

	31 Dec 2017	31 Dec 2016
	€m	€m
Items in course of collection from other banks	**326**	338
Accruals and deferred income[1]	**38,369**	47,519
Total	**38,695**	47,857

1 Including mark-to-market on derivatives instruments : EUR 37,998 million in 2017 and EUR 46,936 million in 2016.

17 Subordinated debt

This heading deals with the debts materialised or not by term or perpetual securities. The refund in the event of the liquidation of the payer is possible only in the case of the desinterest of the other creditors.

If the need arises, accrued interest on these subordinated securities are recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

	31 Dec 2017	31 Dec 2016
	€m	€m
Subordinated notes	**—**	—
Undated subordinated notes	**16**	16
Subordinated debts	**760**	260
Accrued interest	**0.6**	0.2
Total	**777**	276

Securities issued by HSBC France

Subordinated securities issued by HSBC France, 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 and debt

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2017 €m	31 Dec 2016 €m
Undated subordinated securities	22.07.1985		TMO - 0,25	FRF	**16.2**	16.2
Accrued interest					**0.1**	0.1
Total (including accrued interest)					**16.3**	16.3

Participating securities are refunded at a price equal to the par only in the case of the liquidation of the company. Nevertheless, the amortisation by subordinated debts buyback is possible by the buyback in the Stock Exchange.

The subordinated liabilities conversion in equity or in debt is not possible.

Subordinated debts

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2017 €m	31 Dec 2016 €m
Subordinated debts	22.12.2014	22.12.2029	Floating rate	EUR	**260**	260
Undated debts[1]	26.05.2017	perpetual	Fixed rate as defined on the contract	EUR	**200**	–
Subordinated debts[2]	26.05.2017	26.05.2027	Floating rate	EUR	**300**	–
Accrued interest[3]					**0.6**	0.2
Total for securities issued by HSBC France (including accrued interest)					**760.6**	260.2

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 transformation 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 Share capital

	31 Dec 2017		31 Dec 2016	
(shares of 5 euros)	**Number of shares**	**Total (in thousands of euros)**	Number of shares	Total (in thousands of euros)
At 1 Jan	**67,437,827**	**337,189**	67,437,827	337,189
– subscription options exercised	**–**	**–**	–	–
– new capital issued - merger	**–**	**–**	–	–
– reduction of capital	**–**	**–**	–	–
At 31 Dec	**67,437,827**	**337,189**	67,437,827	337,189

Voting rights

At 31 December 2017, the total of voting rights stood at 67,437,827.

19 Equity

	31 Dec 2017 €m	31 Dec 2016 €m
Called-up share capital	**337**	337
Share premium account	**16**	16
Reserves	**1,043**	1,043
– legal reserve	**38**	38
– long-term gains reserve	**406**	406
– revaluation reserve	**5**	5
– extraordinary and other reserve	**305**	305
– free reserve	**294**	294
– revaluation reserve on past service costs	**(5)**	(5)
Retained earnings[1]	**3,148**	3,602
Interim dividend	**(65)**	(135)
Special tax-allowable reserves	**—**	—
Net profit for the year	**172**	117
Equity	**4,651**	4,980

1 *Before proposed appropriation submitted to Annual General Meeting's approval.*

Changes in equity in 2017

	2017 €m
Balance at 1 Jan	**4,980**
Net profit for the year	**172**
New shares issued upon exercise of stock options	**—**
Reduction of capital	**—**
Interim dividend	**(65)**
Others	**(435)**
Balance at 31 Dec	**4,651**

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 France 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 2017	31 Dec 2016
	€m	€m
Provision for employee-related commitments[1]	164	160

1 *Including defined benefits pension plans for Executive Board for EUR 3,3 million in 2017 and for EUR 3 million in 2016.*

Principal actuarial assumptions of the post-employment defined benefit plans

The main actuarial assumptions used for measuring pension plan commitments and post-employment healthcare benefits, which serve as the basis for calculating the expense for the relevant accounting periods, are as follows:

(in %)	Discount rate	Expected rate of return on plan assets[1]	Inflation assumption	Rate of increase for pensions in payment and deferred pensions	Rate of pay increase	Mortality table[2]
At 31 Dec 2017	**1.35**	**1.35**	**1.50**	**1.50**	**2.61**	**–**
At 31 Dec 2016	1.65	1.65	1.50	1.50	2.65	–

1 *Expected rate of return on bonds.*

2 *HSBC France uses the tables TGH and TGF2005 for pension obligations and TV 88/90 for retirement benefits.*

HSBC France 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 pension obligation. The expected rate of return on plan assets is determined in consultation with HSBC's actuaries, based on historical market returns, adjusted for additional factors such as the current rate of inflation and interest rates.

HSBC France applies the method compliant with IAS 19 published on June 2011.

Provision recognised

	31 Dec 2017	31 Dec 2016
	€m	€m
Present value of benefit obligations	172	169
Fair value of plan assets	(8)	(9)
Net liability recognised	**164**	160

The components of the table below have been booked 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 2017	**9**	**169**	**160**
Current service cost	–	4	4
Net interest (income)/cost on the net defined benefit liability	–	3	3
Remeasurement effects recognised in other comprehensive income	–	5	5
Benefits paid	(1)	(9)	(8)
Au At 31 Dec 2017	**8**	**172**	**164**

Fair value of plan assets by asset classes

	31 Dec 2017			
	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	8	8	–	–
– equities	–	–	–	–
– bonds	8	8	–	–
– property	–	–	–	–
– derivatives	–	–	–	–
– other	–	–	–	–

21 Off-balance sheet items

	31 Dec 2017 €m	31 Dec 2016 €m
A – Loan commitments		
Commitments given	**23,349**	22,447
Refinancing agreements and other financing commitments in favour of banks	**598**	769
In favour of customers	**22,751**	21,678
– confirmed credit facilities	**22,697**	21,634
– acceptances payable and similar instruments	**53**	44
Commitments received	**2,782**	1,796
Refinancing agreements and other financing commitments in favour of banks	**2,782**	1,796
B – Guarantee commitments		
Commitments given	**4,989**	4,405
Guarantees, acceptances and other securities to banks	**515**	692
Guarantees, acceptances and other securities to customers	**4,474**	3,712
Commitments received	**14,720**	13,522
Guarantees, acceptances and other security from banks	**14,720**	13,522

Loans pledged for Covered Bonds issues

	31 Dec 2017 €m
Covered bonds	**5,310**
Loans pledged on guarantee 3G and TRICP	**2,963**
Loans pledged on guarantee CCBM	**7,672**
Securities pledged on guarantee	**2,156**
Total	**18,101**

22 Derivatives

Exchanges rate contracts

	31 Dec 2017				31 Dec 2016			
	Fair value at 31 Dec 2017	Hedging contracts[1]	Trading contracts[1]	Total[1]	Fair value at 31 Dec 2016	Hedging contracts[1]	Trading contracts[1]	Total[1]
	€m	€m	€m	€m	€m	€m	€m	€m
Unconditional transactions	**1.4**	**24**	**2,148**	**2,172**	1.4	57	1,713	1,770
Exchange traded	**–**	**–**	**80**	**80**	–	–	61	61
– interest rate	**–**	**–**	**80**	**80**	–	–	61	61
– exchange rate	**–**	**–**	**–**	**–**	–	–	–	–
– equity	**–**	**–**	**–**	**–**	–	–	–	–
Non-exchange traded	**1.4**	**24**	**2,068**	**2,092**	1.4	57	1,652	1,709
– futures	**–**	**–**	**86**	**86**	–	–	55	55
– interest rate	**1.3**	**23**	**1,866**	**1,888**	1.3	56	1,480	1,536
– exchange rate	**–**	**1**	**37**	**38**	(0.1)	1	39	40
– other contracts	**0.1**	**–**	**80**	**80**	0.2	–	77	77
Conditional transactions	**(1.3)**	**–**	**750**	**750**	(0.2)	–	634	634
Exchange traded	**–**	**–**	**40**	**40**	–	–	25	25
Interest rate	**–**	**–**	**–**	**–**	–	–	–	–
Exchange rate	**–**	**–**	**40**	**40**	–	–	25	25
Other contracts	**–**	**–**	**–**	**–**	–	–	–	–
Non-exchange traded	**(1.3)**	**–**	**709**	**709**	(0.2)	–	609	609
Caps and floors	**(0.4)**	**–**	**238**	**238**	(0.5)	–	212	212
Swaptions and options	**(1.0)**	**–**	**–**	**–**	0.4	–	–	–
– bought	**–**	**–**	**43**	**43**	–	–	48	48
– sold	**–**	**–**	**429**	**429**	–	–	349	349
Total derivatives	**–**	**24**	**2,898**	**2,922**	–	58	2,346	2,404

1 *Notional contract amounts.*

Other information on derivatives

	31 Dec 2017	31 Dec 2016
	€m	€m
Microhedge contract[1]	17	23
Macrohedge contract[2]	6	33
Trading	1,866	1,480
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 2017			
	≤ 1 year	>1 year and ≤ 5 years	> 5 years	Total
	€m	€m	€m	€m
Derivatives:				
– Exchange contracts	10	12	16	38
– Interest rate contracts	803	1,166	842	2,811
– Others	71	1	1	73
Total	883	1,179	859	2,922

Risk-weighted assets – Amount of Exposure At Default (EAD) for derivatives contracts

	31 Dec 2017	31 Dec 2016
	€m	€m
A – Contracts concluded under Master agreement with close-out netting	8,910	9,845
1. Transactions with banks from OECD countries	8,795	9,718
2. Transactions with customers and banks localised outside OECD countries	115	126
B – Other contracts	1,238	634
1. Transactions with banks from OECD countries	1,180	575
– interest rate contracts	1,153	552
– exchange contracts	27	22
– equity derivatives contracts	–	–
– credit derivatives contracts	–	–
– commodities contracts	–	–
2. Transactions with customers and banks localised outside OECD countries	58	59
– interest rate contracts	12	17
– exchange contracts	46	43
– equity derivatives contracts	–	–
Total Exposure At Default	10,148	10,479
Corresponding risk-weighted assets (RWA)	1,785	2,333

Clearing effect on Exposure At Default

	31 Dec 2017	31 Dec 2016
	€m	€m
Original exposure before credit risk mitigation (including close-out netting)	65,434	73,013
Exposure mitigation due to close-out netting	(50,353)	(55,132)
Exposure mitigation due to credit mitigation	(4,933)	(7,403)
Exposure value after credit risk mitigation (including close-out netting)	10,148	10,479

23 Net interest income

	31 Dec 2017 €m	31 Dec 2016 €m
Interest and similar income		
Banks and financial institutions	**377**	285
Customers	**822**	861
Bonds and other fixed-income securities	**297**	316
Total	**1,496**	1,462
Interest and similar expenses		
Banks and financial institutions	**503**	399
Customers	**75**	102
Subordinated liabilities	**12**	5
Other bonds and fixed-income securities	**257**	263
Total	**846**	769

24 Fixed-income securities

	31 Dec 2017 €m	31 Dec 2016 €m
Income		
Available-for-sale and similar & portfolio activity securities	**—**	—
Interests in subsidiaries and associates and other long-term securities	**—**	—
Interests in group companies	**124**	98
Total	**124**	98

25 Breakdown of fees

	31 Dec 2017 €m	31 Dec 2016 €m
Fees		
Income	**740**	775
On transactions with banks	**4**	4
On transactions with customers	**85**	89
On foreign exchange transactions	**2**	2
On primary securities market activities	**77**	55
On provision of services for third parties	**443**	482
On commitments	**93**	102
Other commission	**36**	43
Expenses	**(229)**	(204)
On transactions with banks	**(7)**	(8)
On corporate actions	**(41)**	(24)
On forward financial instrument activities	**(10)**	(9)
On provision of services for third parties	**(162)**	(155)
On commitments	**(4)**	(4)
Other commission	**(5)**	(4)
Total fees	**511**	571

26 Gains and losses on portfolio business transactions

	31 Dec 2017	31 Dec 2016
	€m	€m
Gains or losses		
Trading securities	**(551)**	258
Foreign exchange transactions	**35**	43
Forward financial instruments	**823**	37
Total	**308**	338

27 Gains or losses on available-for-sale securities

	31 Dec 2017	31 Dec 2016
	€m	€m
Results for available-for-sale securities		
Gains or losses	**38**	19
Impairment :	**(3)**	3
– charges	**(7)**	(4)
– releases	**4**	6
Results for portfolio activity securities		
Gains or losses	**–**	–
Impairment :	**2**	(2)
– charges	**–**	(3)
– releases	**2**	–
Total	**37**	19

28 General operating expenses

	31 Dec 2017 €m	31 Dec 2016 €m
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation[1]	**(731)**	(733)
Pension expense	**(92)**	(95)
Profit sharing	**(4)**	(3)
Incentive plan	**(16)**	(19)
Compensation expense subtotal	**(843)**	(850)
Other administrative expenses[2]	**(570)**	(635)
Total operating expenses	**(1,413)**	(1,485)

1 *Including EUR 17,1 million for Executive Committee compensation for 2017 and EUR 16,4 million for Executive Committee compensation for 2016.*

2 *Including EUR 42 million for the Single Resolution Fund for 2017 and EUR 57 million for 2016.*

Share award plans

Allowance was 34 per cent released for the 2013 plan, 66 per cent released for the 2014 plan and 34 per cent released for the English sub-plan 2013, 33 per cent released for the English sub-plan 2014, 33 per cent released for the English sub-plan 2015, against shares attribution for EUR 8.1 million.

Regarding the ongoing plans, the final charge for HSBC France is not yet known as the attributed shares were not bought by the Trust.

The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on quoted price as 31 December 2017.

At 31 December 2017, allowance stood at EUR 0.1 million for the 2012 plan, at EUR 0.3 million for the 2013 plan, at EUR 2.4 million for the 2014 plan, at EUR 7.2 million for the 2015 plan and at EUR 3.6 million for the 2016 plan.

2017 share award plans

The allowance defined is hence accounted on a linear basis on the employee's grant acquisition period based on awarding hypothesis.

At 31 December 2017, allowance stood at EUR 1.9 million.

29 Gains or losses on disposals of fixed assets

	31 Dec 2017 €m	31 Dec 2016 €m
Gains or losses on held-to-maturity securities	**–**	–
Gains or losses on tangible and intangible fixed assets	**–**	(1)
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies[1]	**15**	104
Total	**15**	103

1 *In 2017, gains on disposal of ARDIAN Fund IV shares for EUR 12 million, gains on disposal of Unigrains shares for EUR 4 million. In 2016, gains on disposal of VISA shares for EUR 108 million.*

30 Corporate income tax

	31 Dec 2017 €m	31 Dec 2016 €m
Current tax		
At standard rate	**15**	(2)
At reduced rate	**–**	–
Deferred taxation	**(31)**	15
Total	**(16)**	12

Deferred tax is calculated according to the principles set out in Note 1 j on page 204.

The rates used for calculating taxes are:

	Echéance 2018	Echéance 2017	Echéance 2016
	%	%	%
Standard rate	**33.33**	33.33	33.33
Reduced rate (PVLT gains rate)	**4.0**	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	**30.0**	–	10.7
Deferred taxation			
Standard rate on DT if assumption of recovery on 2018	**33.33**	33.33	33.33
Standard rate on DT if assumption of recovery on 2019	**31.00**	33.33	33.33
Standard rate on DT if assumption of recovery on 2020	**28.00**	33.33	33.33
Standard rate on DT if assumption of recovery on 2021	**26.50**	28.00	33.33
Standard rate on DT from 2022	**25.00**	28.00	33.33
Reduced rate on DT if assumption of recovery on 2018	**4.0**	4.0	4.0
Reduced rate on DT if assumption of recovery on 2019	**3.7**	4.0	4.0
Reduced rate on DT if assumption of recovery on 2020	**3.4**	3.4	4.0
Reduced rate on DT if assumption of recovery on 2021	**3.2**	3.4	4.0
Reduced rate on DT from 2022	**3.0**	3.4	4.0

More tax contributions, applicable over the periods to which assets will be realized or liabilities will be paid.

At the end of december 2017, the deferred taxes were recorded on taxation gaps generated by temporary differences.

The deferred tax rate at 33,33 %, 31 %, 28 %, 26,5 % or 25 % (more CSB) is applicable according to the assumptions of recovery of these deferred taxes.

Tax group

Since 2001, the parent company of the tax group has been HSBC Bank plc Paris branch.

In 2017, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 63 million. The proportion of benefits passed on to HSBC France was EUR 24 million.

In 2016, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 75 million. The proportion of benefits passed on to HSBC France was EUR 34 million.

These benefits are recognised in their entirety under the heading 'Taxes'.

Deferred tax in the balance sheet

The net deferred tax receivable recognised in the balance sheet at 31 December 2017 was EUR 67 million compared with EUR 99 million at 31 December 2016. At 31 December 2017 this receivable is made up of deferred tax assets of EUR 97 million against EUR 130 million at 31 December 2016 and a deferred tax liability of EUR 30 million compared with EUR 31 million at 31 December 2016.

CICE allocation

The *Crédit d'Impôt Compétitivité Emploi ('CICE')* is a new tax rebate that become operative on 1 January 2013. Available for every French company, the CICE substantially reduces the tax paid. For 2017, the CICE corresponds to 7 per cent of staff costs excluding salaries over 2.5 times the minimum wage ('SMIC').

The CICE is equivalent to a reduction in payroll taxes. As such, HSBC France recognises the CICE as a reduction in employee compensation and benefits.

HSBC France group benefited from a EUR 7.8 million tax credit in respect of *Crédit d'Impôt Compétitivité Emploi ('CICE')* during the fiscal year of 2017 (in 2016 : EUR 6.6 million).

Within the framework of the allocation of CICE, HSBC France group backed the profit of the tax credit to a pool of expenses and investments dedicated to the improvement of products and services to customers as well as enhancement of the bank's efficiency. Those expenses are broken down into the following categories:

- Information and technology innovative investments: significant expenses have been engaged during the year 2017 dedicated to the development of enhanced and better integrated commercial software, notably the complete reshape of workstation in branches, faster deployment of digital tools and services to customers as well as continuous improvement of financial crime compliance processes;
- Training: Staff benefited from numerous courses during the year 2017 with certificated courses, language training courses as well as compliance and risk management;
- Premises: investments in the development and refurbishment of the branch networkand headquaters, energy saving schemes.

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

HSBC group entities, including HSBC France, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and on pages 109 and the following ones of the 2017 Registration Document, HSBC France considers that none of these matters is significant. HSBC France 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 2017.

Anti-money laundering and sanctions-related

In December 2012, HSBC Holdings plc (HSBC Holdings or HSBC), the bank's ultimate parent company, HSBC North America Holdings ('HNAH') and HSBC Bank USA, N.A. ('HBUS') entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act ('BSA'), Anti-Money Laundering ('AML') and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with, amongst others, the US Department of Justice ('DoJ') (the AML DPA). HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the Federal Reserve Board ('FRB').

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK Financial Conduct Authority ('FCA') to comply with certain forward-looking AML- and sanctions-related obligations. In addition, HSBC Bank USA entered into a civil money penalty consent order with the Financial Crimes Enforcement Network ('FinCEN') of the US Treasury Department and a separate civil money penalty order with the Office of the Comptroller of the Currency ('OCC').

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling USD 1.9 billion to US authorities, and undertook various further obligations, including, among others, to retain an independent compliance monitor (who is, for FCA purposes, a 'skilled person'). Under these agreements, HSBC Holdings has also certain obligations to ensure that the entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. In February 2018, the Monitor delivered its fourth annual follow-up review report. Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions issues that HSBC are reviewing further with the DoJ, FRB and/or FCA.

In December 2017, the AML DPA expired and the charges deferred by the AML DPA were dismissed. The Monitor will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation relating to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

European interbank offered rates investigations and litigation

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America (US), the European Union, Italy, Switzerland, and elsewhere 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 France 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 France. HSBC has appealed the decision.

In November 2013, HSBC (HSBC Holdings plc and HSBC Bank plc, but not HSBC France) and other banking groups which contribute to the fixing of the Euribor, were named as defendants in a putative class action filed in the US District Court for the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, amongst other things, misconduct related to the contribution to the fixing of the Euribor in violation of US antitrust laws, the US CEA, and state law of New York. In December 2016, HSBC reached an agreement with plaintiffs to resolve this action, subject to court approval. The charge corresponding to the amount of this settlement was apportioned between the HSBC entities concerned by the underlying facts, including HSBC France. The court issued an order granting preliminary approval in January 2017, and has scheduled the final approval hearing in May 2018.

Foreign exchange rate investigations and litigation

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

In August 2016, the US Department of Justice ('DoJ') indicted two now-former HSBC employees and charged them with wire fraud and conspiracy relating to a 2011 foreign exchange transaction. In October 2017, one of the former employees was found guilty after trial. In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including continuing to cooperate with authorities and implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC Holdings agreed to pay a financial penalty and restitution.

32 Presence in non-cooperative States or territories

HSBC France 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 have been no material events after the balance sheet date which would require disclosure or adjustment to financial statements of 31 December 2017.

There has been no significant change affecting the financial or sales situation of HSBC France or its subsidiaries since 31 December 2017, date of the most recent published financial statements reviewed by the auditors.

34 Other information

34.1 Appropriation of net profit

	31 Dec 2017 €m	31 Dec 2016 €m
Results available for distribution		
– retained earnings	**3,148**	3,602
– net profit for the year	**172**	117
Total (A)	**3,320**	3,719
Appropriation of income		
– dividends	**112**	270
– legal reserve	**—**	—
– free reserve	**—**	—
Total (B)	**112**	270
Retained earnings (A - B)	**3,208**	3,449

34.2 Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

	2017 €m	2016 €m	2015 €m	2014 €m	2013 €m
Share capital at year end					
Called up share capital	**337**	337	337	337	337
Number of issued shares	**67,437,827**	67,437,827	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	**2,869**	2,847	3,020	2,903	3,063
Profit before tax, depreciation and provisions	**238**	292	459	698	644
Profit after tax, depreciation and provisions	**172**	117	281	393	331
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**3.3**	4.5	6.0	8.6	7.9
Profit after tax, depreciation and provisions	**2.5**	1.7	4.2	5.8	4.9
Dividend paid per ordinary share, eligible as of 1 January	**1.66**	4.00	4.15	2.23	1.78
Employees (France)					
Number of employees[1]	**8,080**	8,382	8,979	9,144	9,198
Average number of employees (excluding employees available)[2]	**8,202**	8,652	9,056	9,158	9,207
Salaries and wages	**515**	515	529	534	554
Employee benefits	**249**	249	259	258	267
Payroll and other taxes	**61**	63	60	70	60
Incentive schemes and/or employee profit-sharing scheme[3]	**23**	23	25	27	38

1 *Banking status employees, registered as at 31 December of each year.*
2 *Of which 5,828 executives and 2,374 non-executives in 2017; of which 5,991 executives and 2,661 non-executives in 2016; of which 6,165 executives and 2,891 non-executives in 2015; of which 6,194 executives and 2,964 non-executives in 2014; of which 6,202 executives and 3,005 non-executives in 2013.*
3 *Based on previous year's profits.*

34.3 List of equity shares and debt securities held at 31 December 2017 (excluding trading securities)

Held-on maturity, available-for-sale and portfolio activity securities

	31 Dec 2017
	€m
A – Held-to-maturity securities	**370**
Debt securities	**370**
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	370
Accrued interest	–
B – Available-for-sale and portfolio activity securities	**7,086**
Debt securities	**6,975**
Treasury bills and other eligible bills	–
Other public sector securities	3,846
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Asset-backed securities	–
Bonds and similar	3,096
Negotiable medium-term notes issued by banks	–
Accrued interest	32
Equity shares	**111**
Equity shares and similar	111
Mutual fund units	–
Total held-to-maturity, available-for-sale and portfolio activity securities	**7,456**

Interests in related parties, other participating interests and long-term securities

	31 Dec 2017
	€m
A – Other participating interest and long-term securities	**84**
securities listed on a recognised French exchange	–
unlisted French securities	84
foreign securities listed on a recognised French exchange	–
foreign securities listed elsewhere	–
unlisted foreign securities	–
accrued income	–
B – Interests in related parties	**1,358**
listed French securities	–
unlisted French securities	1,342
listed foreign securities	–
unlisted foreign securities	16
accrued income	–
Total interests in related parties, other participating interests and long-term securities	**1,442**

34.4 Interests in subsidiaries and related parties at 31 December 2017

(in thousands of euros unless otherwise stated)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %	Book value of securities held: Cost	Book value of securities held: Net	Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Last year's sales	Last year's net profit or loss	Dividends received by HSBC France in the last financial
A – Information on companies whose book value at cost exceeds 1% of HSBC France's share capital												
1 – Subsidiaries (over 50%)												
HSBC SFH (France) (ex – HSBC Covered Bonds), 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Financial company	113,250	315	100.00	113,239	113,239	–	–	63,750	1,042	604
HSBC Factoring (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Factoring	9,240	80,968	100.00	39,236	39,236	1,131,099	–	32,147	7,517	–
Société Française et Suisse, 64, rue Galilée – 75008 Paris (France)	Limited company (SA)	Investment company	599	7,918	100.00	60,384	9,440	73	–	–	937	–
SAPC UFIPRO Recouvrement 39, rue de Bassano – 75008 Paris (France)	Limited liability company (SARL)	Dept collecting company	7,619	1,602	99.98	16,260	9,213	–	–	–	(7)	–
HSBC Epargne Entreprise (France), 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Limited company (SA)	16,000	10,107	100.00	15,148	15,148	–	–	7,257	(1,585)	–
HSBC Global Asset Management (France) 4, place de la Pyramide – La Défense 9, 92800 Puteaux (France)	Limited company (SA)	Asset management	8,050	18,303	93.67	134,546	134,546	427	–	206,382	37,595	41,476
HSBC Services (France) (ex - HSBC Securities) 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Commercial company	2,442	2,483	100.00	36,877	4,920	–	–	–	(8)	–
Valeurs Mobilières Elysées (ex - Nobel) 109, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Limited company (SA)	41,920	8,209	100.00	67,757	67,757	2,495	–	–	32,148	8,305
HSBC Leasing (France) 39, rue de Bassano – 75008 Paris (France)	Simplified join-stock company	Leasing	168,528	27,404	100.00	281,756	281,756	238,939	–	22,552	88,279	33,987
Société Financière et Mobilière, 103, avenue des Champs-Elysées – 75008 Paris (France)	Limited company (SA)	Holding company	40,000	34,925	100.00	84,053	74,935	40,385	–	98	(1,584)	–
Foncière Elysées S.A. 103, avenue des Champs-Elysées – 75008 Paris (France)	Simplified join-stock company (SAS)	Real estate	14,043	14,648	100.00	44,478	39,533	–	–	1,404	736	912
Charterhouse Management Services Ltd, 8 Canada Square – London E14 5HQ (United Kingdom)	Limited company under English law	Investment company	10 000 GBP	2 273 GBP	100.00	11,271	11,271	–	–	27 GBP	23 GBP	–
HSBC Real Estate Leasing (France) 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	*Crédit-bail immobilier*	38,255	44,839	80.98	37,190	37,190	1,221,125	–	135,867	9,539	3,862
CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (United Kingdom)	Limited company under English law	Investment holding	5 000 GBP	5 581 GBP	100.00	4,774	4,774	–	–	6 GBP	-6 GBP	–
HSBC Assurances Vie (France), 15, rue Vernet – 75008 Paris (France)	Limited company (SA)	Insurance company	115,000	426,651	100.00	513,999	513,999	–	–	1,860,514	65,686	30,000
B – Aggregate data concerning companies whose book value at cost does not exceed 1% of HSBC France's share capital												
1 – Subsidiaries not included in paragraph 1												
a) French subsidiaries (aggregated)	–		–	–	–	30	30	–	–	–	–	–
b) Foreign subsidiaries (aggregated)	–		–	–	–	1,818	1,269	–	–	–	–	–
2 – Related party companies not included in paragraph 2												
a) French companies (aggregated)	–		–	–	–	4	4	–	–	–	–	–
b) Foreign companies (aggregated)	–		–	–	–	–	–	–	–	–	–	–

34.5 Transactions with subsidiaries and other related parties

	31 Dec 2017	
	Subsidiaries	Other related parties
	€m	€m
Assets		
Treasury bills and money-market instruments	–	2,121
Loans and advances to banks	3,159	4,283
Loans and advances to customers	186	849
Bonds and other fixed income securities	371	2,072
Liabilities		
Due to credit institutions	4,160	13,264
Customer accounts	549	43
Debt securities	–	–
Other liabilities	–	3,172
Subordinated liabilities	–	760
Off-balance sheet items		
Financing commitments given	106	–
Guarantees and endorsements given	14	145
Securities commitments (other commitments given)	–	–

35 Auditors' remuneration

	PricewaterhouseCoopers Audit		BDO France – Léger & Associés Audit		Others	
	Amount		Amount		Amount	
2017 Financial year	€k	%	€k	%	€k	%
Account certifications	2,832	94	488	97	–	–
Other services	196	6	17	3	–	–
Remuneration paid in 2017	3,028	100	505	100	–	–

Services other than the account certification at 31 December 2017 for PricewaterhouseCoopers Audit and BDO France – Léger & Associés mainly concern comfort letters related to the programs of issuances and interim dividends and the other services provided by PricewaterhouseCoopers Audit mainly relate to legal or regulatory services and also services related to specific reports (ISAE3000), normative and regulatory monitoring studies.

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO France – Léger Et Associés
43-47, avenue de la Grande Armée
75116 Paris

Statutory Auditors' report on the financial statements

(For the year ended 31 December 2017)

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 France
103, avenue des Champs-Elysées
75419 Paris Cedex 08

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 France for the year ended 31 December 2017.

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 as at 31 December 2017 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 those 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 applicable to us, for the period from 1 January 2017 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 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) 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 judgment, were of most significance 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
HSBC France's Global Banking and Markets (GB&M) business operates in key capital markets, providing transactional and financing solutions to major corporate and institutional customers. It provides services for the origination, sale and structure of market products including derivative financial instruments, for corporates, financial institutions and major issuers. 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 (except for hedging instruments). 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 derivative financial instruments based on unobservable data to be a key audit matter for HSBC France'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 complex derivative financial instruments, and specifically those regarding: • independent validation of valuation models by the Independent Model Review - Markets department; • the independent verification of prices and valuations by the Product Control department; • fair value adjustments. We also sought the support of our experts in modelling risk to carry out 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 the HSBC internal models. We examined the assumptions, methods and models used by the Bank to estimate principle valuation adjustments (counterparty and liquidity risk) in order to assess their appropriateness.

At 31 December 2017, derivative instruments measured based on unobservable data represented EUR 684 million recognised under assets and EUR 761 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 their activities, HSBC France 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. Since 2015, weaknesses associated with user access rights to operating systems, databases and certain applications contributing directly or indirectly to the preparation of the financial statements have been identified. This creates the risk that by omission or error, changes to financial information systems and processed data may not be appropriate. Management has strengthened the control environment for user access rights. However, certain controls had not yet been installed on all information systems. We deemed these weaknesses to constitute a key audit matter for the HSBC France 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; and • 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. Other areas were assessed independently, including password policies, security configurations and controls in place on modifications to applications and databases. We also tested controls intended to ensure that business users and developers do not have access to applications, operating systems or databases in the production environment. In view of the identified control weaknesses, 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 68 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 France estimates the risk of impairment of its portfolio and recognises any appropriate allowances. Since 2016, the cost of risk has been particularly low against a backdrop of favourable interest rates for corporates. 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. This 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 existing controls in order to assess the relevance of the impairment losses applied. 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 management to verify that the estimated allowances determined using internally-developed models were proportionate to the effective 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.

Net outstanding customer loans for Commercial Banking stood at EUR 11.3 billion at 31 December 2017.
See Notes 1, 3 and 8 to the financial statements.

Verification of the management report and of the other documents provided to the shareholders

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

Verification of the management report and of the other documents provided to the shareholders with respect to the 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 management report of the Board of Directors, and in the other documents provided to the shareholders with respect to the financial position and the financial statements.

Information on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by articles L.225-37-3 and L. 225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of article L.225-37-3 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC France by the Annual General Meetings of 23 April 2015 (PricewaterhouseCoopers Audit) and 15 May 2012 (BDO France – Léger & Associés).

As at 31 December 2017, PricewaterhouseCoopers Audit and BDO France – Léger & Associés were in the third year and the sixth year of total uninterrupted engagement, respectively.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements presenting 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 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 of users taken 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 management of the Company.

A more detailed description of our responsibilities as Statutory Auditors in the scope of the audit of the financial statements is set out in the appendix to this report, and is an integral part hereof.

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 judgment, were of most significance 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, France, 22 February 2018

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO France – Léger & Associés**
Nicolas Montillot	Fabrice Chaffois
Partner	Partner

Appendix

Responsibilities of the Statutory Auditors relating to the audit of the financial statements

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit.

They also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive 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 internal control 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.

HSBC France's principal subsidiaries and investment policy

HSBC France group's principal subsidiaries at 31 December 2017

Commercial Banking

Distribution	HSBC Factoring (France) (100%)

Global Banking and Markets

Real estate	Foncière Elysées (100%) HSBC Real Estate Leasing (France) (100%)
Structured financing and Global Banking	HSBC SFH (France) (100%) Société Financière et Mobilière (100%) HSBC Leasing (France) (100%)

Asset Management

France	HSBC Global Asset Management (France) (100%) HSBC Epargne Entreprise (France) (100%) HSBC REIM (France) (100%)
Abroad	HSBC Global Asset Management (Switzerland) (50%)

Insurance

France	HSBC Assurances Vie (France) (100%)

Subsidiaries and equity investments

France	Valeurs Mobilières Elysées (100%) Société Française Suisse (100%)
Abroad	Charterhouse Management Services Ltd (100%)

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 France group's principal subsidiaries at 31 December 2017

Commercial Banking

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
HSBC Factoring (France)	**2,372,048**	2,185,412	**97,724**	90,207	**7,517**	3,586	**100.0**	100.0

HSBC Factoring (France)'s activity increased in 2017, with gross turnover of EUR 15 billion at the end of December 2017. Net profit rose sharply, driven by a fall in cost of risk parly offset by a slight decrease in net operating income before before provisions due to pressure on margins in a competitive market and an increase in operating expenses due to fight against financial crime.
At 31 December 2017, the cost efficiency ratio was 55 per cent.

Global Banking and Markets

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
HSBC SFH (France)	**3,723,074**	5,969,872	**114,606**	114,169	**1,042**	579	**100.0**	100.0
HSBC Leasing (France)	**1,498,187**	1,721,979	**284,211**	229,919	**88,279**	87,973	**100.0**	100.0
HSBC Real Estate Leasing (France)	**1,408,200**	1,275,025	**92,633**	87,863	**9,539**	9,273	**100.0**	100.0

HSBC SFH (France): HSBC SFH (France) is a company dedicated to refinancing HSBC France by issuing covered bonds secured by home loans (cover pool). HSBC SFH (France) launched its first issue on 20 January 2010. On 20 January 2017, the first issue for an amount of EUR 1.5 billion matured and has been repaid.
At 31 December 2017, issues totaled EUR 3,6 billion secured by a cover pool of EUR 5.3 billion.

HSBC Leasing (France): 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 2017 totaling EUR 1.4 billion, a decrease of 12 per cent compared to 2016.

HSBC Real Estate Leasing (France): HSBC Real Estate Leasing (France) is a company dedicated to real estate leasing financing. A significant increase in loan production and the control of operating expenses led to a growth of net income. Loan production amounted to EUR 148 million compared with EUR 80 million in 2016. At 31 December 2017, the cost efficiency ratio stood at 13%. The portfolio consists in 409 real estate assets, there are no vacant buildings.

Asset Management

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
HSBC Global Asset Management (France)	**145,690**	151,981	**63,949**	70,630	**37,595**	40,211	**100.0**	–
HSBC Epargne Entreprise (France)	**80,516**	55,247	**24,522**	26,107	**(1,585)**	(1,751)	**100.0**	100.0
HSBC REIM (France)	**12,281**	12,791	**9,086**	8,097	**4,011**	5,573	**100.0**	100.0

HSBC Global Asset Management (France):

Profit before tax went down, reflecting the impact of the outflows on fixed income products during the second half and lower margins.
Assets managed and distributed amounted to EUR 77 billion compared with EUR 79 billion at end 2016.
HSBC Global Asset Management (France) continued to leverage on its expertise within HSBC Group to develop its "cross border" customer base and to win in 2017 some awards such as :

- *best international development (Bourosrama) ;*
- *label Régularité in category Diversifié - Défensifs (Mieux Vivre Votre Argent)*
- *Label Performance' in category Eurozone and France stocks (Mieux Vivre Votre Argent)*
  - *-'Meilleure Gestion Action' over 5 years (mieux Vivre Votre Argent)*
  - *- 'Corbeille Long-Terme' : ranking 1st : performance overs 5 years (all products*

HSBC Epargne Entreprise (France): HSBC Epargne Entreprise (France) is an investment company, wholly-owned by HSBC France, specialising in employee savings & pensions accounts administration for the HSBC Group in France. It has a clientele of 3,000 companies and manages 215,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totaling EUR 3.7 billion as of 31 December 2017, 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): HSBC REIM (France) is the asset management subsidiary specialized in real estate management on behalf of third-parties. As of December 31st 2017, market value of assets under management was EUR 2.8 billion.The main managed fund, Elysées Pierre, is a French "*SCPI de rendement*" which means that the fund is a real estate-based product for which performance depends on the dividend amounts. It celebrated its 30th anniversary in 2016. Thanks to its capitalization of slightly more than EUR 2 billion, Elysées Pierre stands among the 3 first SCPI with the most significant capitalizations of the market. The fund owns and manages a portfolio of 123 real estate assets, mainly composed of real estate offices located in Paris and its area, one of the deepest, liquid ones in Europe and worldwide. This fund focuses on the distribution of regular incomes to its investors (high-yielding SCPI) and on its real estate portfolio valuation, which results in an Internal Rate of Return (IRR) calculated on December 31st 2017 on a 10-year period of 8.7 %. The specialized press has regularly awarded the management quality and the fund long-term performance. Thus, in April 2017, Elysées Pierre was rewarded during the "Victoire de la Pierre Papier", an event organized by the specialized magazine "Gestion de Fortune" which gathers French real estate indirect investment in rental properties companies as the "Best open-ended SCPI in terms of performance with the highest IRR over a 15-year period: 11 per cent (calculated on December 31st 2016) and "Best Customer Service".

Insurance

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
HSBC Assurances Vie (France)	**21,806,436**	21,170,092	**736,639**	703,954	**65,686**	63,506	**100.0**	100.0

HSBC Assurances Vie (France) manufactures a wide range of products and services to meet HSBC Group customers' needs (individuals, professionals and companies) in terms of life insurance, pension and protection.
For 2017 we note the good commercial performance of Insurance Business despite the low rate environment. Insurance manufacturing gross written premium on saving stands at EUR 1 798 million (+6 per cent compared to 2016)). Strong protection sales leaded by mortgages with a positive impact on financial new business contribution. The net new money is positive for HSBC France Retails Network. The AUMs look up at EUR 19.6 billion for 2017 (+3 per cent compared to 2016), with an increase of Unit Link AUMs for 18 per cent and Unit Link share from 17.6 per cent (2016) to 20.2 per cent (2017). Positive switches movements from Euro funds to unit link for EUR 191 million for HSBC France Retails Network.
The expertise of HSBC Assurances France and the suitability of its products to the needs of individual customers, professionals and companies were recognised in 2017 through various awards of which:
- the Big Golden trophy of life insurance contracts (magazine Le Revenu) for "HSBC Stratégie Patrimoine" product (3rd year in a row);
- the Seal of Excellence of The Savings Records for "HSBC Key Man" product (3rd year in a row).

Own investments

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Société Française et Suisse (SFS)	**9,461**	8,523	**9,454**	8,517	**937**	71	**100.0**	100.0
Valeurs Mobilières Elysées	**90,099**	63,933	**82,277**	58,434	**32,148**	8,298	**100.0**	100.0

Société Française et Suisse (SFS): In 2017, Société Française et Suisse realised an increasing profit in relation with received dividends from its investments. The total balance sheet is mainly composed of liquid assets.

Valeurs Mobilières Elysées: Valeurs Mobilières Elysées is a subsidiary in which are booked investments in principal of the HSBC Group in France. These investments include listed midcaps and Private Equity funds. The HSBC Group having decided in 2009 not to make any more investments in listed midcap shares Valeurs Mobilières Elysées manages a portfolio of listed shares gradually declining. No new Private Equity investments will be booked in Valeurs Mobilières Elysées and in consequence this portfolio will be also gradually declining. The total assets of the Private Equity and listed securities totalised EUR 55 million in January 2017 and account for only EUR 21 million at the end of December 2017.

Investment policy

2013

- Subscription by HSBC France to capital increase made by HSBC SFH (France).

  Cost: EUR 58.5 million.
- Acquisition by HSBC France of 100 per cent of HSBC Assurances Vie (France) from HSBC Bank plc Paris Branch.
- Cost: EUR 514 million.

2014

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France, to capital increase made by Beau Soleil Limited Partnership.

  Cost: EUR 22.1 million.
- Capital decrease of Valeurs Mobilières Elysées.

  Proceeds: EUR 51.7 million.
- Capital decrease of Société de Financement de l'Economie Française.

  Proceeds: EUR 4.7 million.
- Capital decreases of HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments oHG, owned up to 90 per cent by S*ociété Financière et Mobilière*, a wholly-owned subsidiary of HSBC France.

  Proceeds: EUR 299.7 million.

2015

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France, 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% 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 France, in the joint operation HSBC Middle East Leasing Partnership.

  Cost: USD 100.3 million

Proposed resolutions to the Combined General Meeting to be held on 13 March 2018

Ordinary resolutions

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 2017, 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 2017 shows a net profit of EUR171,753,727.36, hereby approve the proposed distribution of this net profit made by the Board of Directors and resolve to appropriate it as follows:

Net profit for the year	EUR171,753,727.36
Plus retained profits	EUR3,148,386,886.12
Total sum available for distribution	EUR3,320,140,613.48

To be distributed as follows:

Dividend of EUR1.66 per share to be paid	EUR111,946,792.82
Retained earnings	EUR3,208,193,820.66

The dividend will be payable from 13 March 2018, after deduction of the interim dividend of EUR 0.97 per share voted by the Board of Directors at its meeting of 27 October 2017 and paid to shares issued as of that date.

Dividend paid is eligible for the tax deduction referred to in article 158 paragraph 3.2 of the General Tax Code.

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

Year	Net dividend per share
2014	EUR2.23
2015	EUR4.15
2016	EUR4

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 2017, 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 Mrs Dominique Perrier decided by the Board on 20 February 2018 to replace Mrs Martine Gerow, who resigned, for the remainder of the term of office of her predecessor, that is until the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2018.

Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, the Shareholders hereby re-elect Mrs Anne Méaux, 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 2020.

Seventh 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 2020.

Eighth 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 2017 to executive members and employees having a significant impact on risks, which amounts to EUR55,072,731.

Ninth resolution

Voting under the quorum and majority conditions to transact ordinary business, pursuant to the Article L. 225-37-2 of the French Commercial Code, the shareholders hereby approve the principles and criteria for determining, allocating and attributing the fixed, variable and exceptional components of total compensation and benefits of any nature, due to their mandate, attributable to the Chief Executive Officer and Deputy Chief Executive Officer, as detailed in the corporate governance report.

Tenth resolution

Voting under the quorum and majority conditions to transact ordinary business, pursuant to the Article L. 225-100 of the French Commercial Code, the shareholders hereby approve the fixed, variable and exceptional components of the total compensation and benefits of any nature paid or awarded to the Chief Executive Officer, in respect of the year ended 31 December 2017, as described in the corporate governance report.

Eleventh resolution

Voting under the quorum and majority conditions to transact ordinary business, pursuant to the Article L. 225-100 of the French Commercial Code, the shareholders hereby approve the fixed, variable and exceptional components of the total compensation and benefits of any nature paid or awarded to the Deputy Chief Executive Officer, in respect of the year ended 31 December 2017, as described in the corporate governance report.

Twelfth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby re-elect PricewaterhouseCoopers Audit, who is retiring by rotation, as Incumbent Statutory Auditor for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2023.

Thirteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby re-elect BDO France - Léger & Associés, who is retiring by rotation, as Incumbent Statutory Auditor for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2023.

Fourteenth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and subject to the adoption of the fifteenth resolution, the shareholders hereby:

- note that the term of office of Mr Jean-Baptiste Deschryver as Alternate Statutory Auditor expires at the end of this General Meeting and that Mr François Allain ceased his duties as Alternate Statutory Auditor as of 1 January 2018;
- acknowledge that the Company's Incumbent Statutory Auditors are multi-partners companies and that, as a result, the Company is not required to appoint Alternate Statutory Auditors;
- decide not to appoint Alternate Statutory Auditors.

Special resolutions

Fifteenth 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 19 of the Articles of Association, which becomes:

'ARTICLE 19-6 APPOINTMENT OF STATUTORY AUDITORS – MISSIONS

The General Meeting appoints for a period of six (6) financial years, at least two Statutory Auditors in the conditions and with the powers fixed in accordance with the legal provisions in force.

They are required to submit their reports to the Board of Directors in such a way that the Board can make them available to the shareholders in observance of the regulatory time limits.

The Statutory Auditors can act jointly or separately, but they are required to draw up a joint report.

The outgoing Statutory Auditors are re-eligible subject to compliance with the legal provisions in force relating to the account certification period by the Statutory Auditors.'

Sixteenth resolution

Voting under the quorum and majority conditions to transact special business, and having heard and considered the report of the Directors and the special report of the Auditors, and in accordance with the provisions of Article L. 225-129-6, indent 2 of the French Commercial Code, the shareholders hereby delegate their authority to the Board of Directors in order to increase the share capital, in one or several steps at its sole discretion, by issuing shares to be subscribed in cash, reserved for employees participating in a company's employee share ownership plan in accordance with the provisions of Article L. 3332-18 et seq. of the French Labour Code.

The shareholders set the maximum increase in the share capital at EUR 10 million.

The shareholders that this delegation entails express waiver by the shareholders of their pre-emptive subscription right in favour of the Company's employees mentioned above as part of the delegation.

The shareholders decide that the issue price of the new shares will be determined by the Board of Directors in accordance with the provisions of Article L. 3332-20 of the Labor Code.

This delegation of authority shall extend for two (2) years from the date of this General Meeting.

The shareholders grant full powers to the Board of Directors to implement this delegation of authority and, in particular, to fix the terms and conditions of the transactions, to set the date and terms of the issues to be made, to set the number of new shares to be issued and their vesting date, set the opening and closing dates of the subscriptions, the procedures for the release of the shares, in accordance with the legal and regulatory provisions.

The Board of Directors will also have full powers to carry out and record the completion of capital increases, carry out directly or by proxy, all subsequent formalities and amend the Articles of Association accordingly and, in general, take all necessary measures and enter into any agreements that are useful for the realisation of the capital increases, under the conditions provided for by the legal and regulatory provisions.

Seventeenth 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 France and its share capital

Information on the company

Name

HSBC France. New name of CCF since 1 November 2005.

Commercial name

HSBC and, for the Private Banking business, HSBC Private Banking.

Date of incorporation

1894.

Registered office

103 avenue des Champs-Elysées – 75008 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 France)

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 and APE code

775 670 284 RCS Paris – APE 6419Z.

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 France 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 France group may, without commitment, request documents by mail from:

HSBC France – 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.

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').

1965: First CCF advertising campaign.

CCF keeps growing, particularly on an international level. Its presence outside of France is strengthened with the opening of branches, subsidiaries and representative offices abroad.

From 1982 to 1987, CCF creates a European investment bank and the acquisition of interests in Union de Banque à Paris, Européenne de Banque and Banque Chaix is the basis of the future CCF group.

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1990: Crédit Commercial du Sud-Ouest is created with the CCF branches located in Gironde département.

1992: CCF acquires Banque Marze in Ardèche département.

1993: CCF acquires Banque de Savoie.

1994: Centenary of CCF.

CCF develops its activities in Investment Banking, International Private Banking, Asset Management, and French retail banking with the acquisition of other regional banks.

During the 90's, Asset Management activity becomes the third main activity in CCF group.

1995: CCF acquires Banque Dupuy, de Parseval

1998: Société Marseillaise de Crédit joins CCF group.

1999: CCF acquires 100 per cent of Banque de Picardie.

April 2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

August 2000: CCF acquires Banque Pelletier.

2001: CCF acquires Banque Hervet.

June 2002: Crédit Commercial de France changes its legal name to CCF.

November 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.

July 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).

July 2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

October 2011: Merger of HSBC Private Bank France with HSBC France.

December 2013: HSBC France acquires HSBC Assurances Vie (France).

August 2017: Creation of a branch in Greece.

October 2017: Creation of a branch in the United Kingdom.

Material contracts

HSBC France 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 2017, the share capital amounted to EUR 337,189,135 divided into 67,437,827 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 2017	**67,437,827**	**337,189,135**	—
Increase (Reduction) during the year	**—**	**—**	—
At 31 Dec 2017	**67,437,827**	**337,189,135**	—
At 1 Jan 2016	67,437,827	337,189,135	—
Increase (Reduction) during the year	—	—	—
At 31 Dec 2016	67,437,827	337,189,135	—
At 1 Jan 2015	67,437,827	337,189,135	—
Increase (Reduction) during the year	—	—	—
At 31 Dec 2015	67,437,827	337,189,135	—
At 1 Jan 2014	67,437,827	337,189,135	—
Increase (Reduction) during the year	—	—	—
At 31 Dec 2014	67,437,827	337,189,135	—
At 1 Jan 2013	67,437,827	337,189,135	—
Increase (Reduction) during the year	—	—	—
At 31 Dec 2013	67,437,827	337,189,135	—

Ownership of share capital and voting rights at 31 December 2017

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, Paris and Bermuda

Dividend and payout policy

	2017	2016	2015	2014	2013
Number of shares at 31 December	**67,437,827**	67,437,827	67,437,827	67,437,827	67,437,827
Average number of shares outstanding during the year	**67,437,827**	67,437,827	67,437,827	67,437,827	67,437,827
EPS [1]	**EUR2.63**	EUR4.61	EUR6.61	EUR2.94	EUR5.68
Net dividend	**EUR1.66**	EUR4	EUR4.15	EUR2.23	EUR1.78
Exceptional dividend	**EUR4.45**	—	—	—	—
Dividend + tax credit	**—**	—	—	—	—
Payout [2]	**232.3%**	86.8%	62.8%	75.9%	31.3%

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 13 March 2018, the Board will propose a net dividend of EUR 1,66 per EUR 5 nominal share, that will be payable after deduction of the interim dividend voted by the Board on 27 October 2017 and paid to shares issued as of that date.

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, after taking all reasonable measures for this purpose and to the best of my knowledge, 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 243 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.

I have received a completion letter from the Auditors stating that they have audited the information contained in this Document about the financial position and accounts and that they have read this Registration Document in its entirety.

Paris, 22 February 2018

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
PricewaterhouseCoopers Audit[1]	2015	–	2018 [5]
Represented by Nicolas Montillot[2] 63, rue de Villiers 92200 Neuilly-sur-Seine			
BDO France – Léger & Associés[3]	2007	2012	2018 [5]
Represented by Fabrice Chaffois[4] 43-47, avenue de la Grande Armée 75116 Paris			
Alternates			
Jean-Baptiste Deschryver[1]	2015	–	2018 [6]
63, rue de Villiers 92200 Neuilly-sur-Seine			
François Allain[1]	2007	2012	2018 [7]
2, rue Hélène-Boucher 78286 Guyancourt Cedex			

1 *Member of the Compagnie Régionale des Commissaires aux comptes of Versailles.*
2 *PwC represented by Nicolas Montillot as of financial year 2015.*
3 *Member of the Compagnie Régionale des Commissaires aux comptes of Paris.*
4 *BDO represented by Fabrice Chaffois as of financial year 2013.*
5 *The renewal of the Incumbent Statutory Auditors for a further term of six years will be proposed to the Shareholders' General Meeting to be held on 13 March 2018.*
6 *It will be proposed to the Shareholders' General Meeting to be held on 13 March 2018 not to appoint Alternate Statutory Auditors and therefore not to renew Jean-François Deschryver.*
7 *François Allain ceased his duties as of 1 January 2018. Il will be proposed to the Shareholders' General Meeting to be held on 13 March 2018 not to appoint Alternate Statutory Auditors and therefore not to replace François Allain.*

Statutory Auditors' fees paid in 2017 within the HSBC France group are available in Note 5 to the consolidated financial statements on page 146.

Cross-reference table

This cross-reference table refers to the main headings required by the European Regulation 809/2004 (Annex XI) implementing the directive known as 'Prospectus'.

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 2016 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 190 to 287 and 288 to 289 of the Registration Document filed with the AMF on 1 March 2017 under reference number D.17-0118 ; and
- the parent company financial statements for the year ended 31 December 2016 and the Statutory Auditors' report on the parent company financial statements, presented on pages 290 to 332 and 333 to 334 of the Registration Document filed with the AMF 1 March 2017 under reference number D.17-0118 .

Network of offices

HSBC network in France

HSBC France

319 locations
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40
www.hsbc.fr

HSBC France subsidiaries

Distribution

HSBC Factoring (France)
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 72 00

Asset Management

HSBC Global Asset Management (France)
4 place de la Pyramide - La Défense 9
92800 Puteaux
Mail address: 75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

HSBC Epargne Entreprise (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 27 17

HSBC Reim (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 39 44

Assurance

HSBC Assurances Vie (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 41 02 40 40

Other locations of the HSBC Group in France

HSBC Bank plc Paris Branch

15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

Other locations of the HSBC France Group abroad

Spain

HSBC Global Asset Management (France),
Spanish branch
Plazza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
Telephone: 34 914 566 979

Italy

HSBC Global Asset Management (France),
Italian branch
Piazzeta Bossi, 1
20121 Milan
Telephone: 39 02 72 437 496

Sweden

HSBC Global Asset Management (France),
Swedish branch
Birger Jarlsgatan 25
SE-111 45 Stockholm
Telephone: 46 8 4545435

Switzerland

HSBC Global Asset Management
(Switzerland) AG
Bederstrasse 49
CH-8027 Zürich
Telephone: 41 44 206 26 00

United Kingdom

HSBC France
UK branch
8 Canada Square, London, E14 5HQ
Telephone: 44 (0) 20 7991 8888

Greece

HSBC France
Greek branch
109-111, Messogheion Avenue
115 26 Athens
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