HSBC France

Universal registration document and Interim Financial Report 2019

HSBC

Contents

Presentation of information

This universal registration document was filed on 5 August 2019 with the *Autorité des Marchés Financiers* ('AMF'), as the competent authority under Regulation (EU) n°2017/1129, without prior approval in accordance with Article 9 of that Regulation.

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

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Declaration (Annex II - 1.2)

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Reference to the Registration Document

This document, named Universal Registration Document, refers to the Registration Document *(Annual Report and Accounts)* filed with the AMF on 20 February 2019 under reference number D.19-0065.

Cautionary statement regarding forward-looking statements

This Universal Registration Document 2019 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 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

	Footnotes	Half-year to 30 Jun 2019	30 Jun 2018	31 Dec 2018
For the period (€m)				
Profit before tax (reported basis)		**51**	10	35
Profit before tax (adjusted basis)	1	**95**	31	58
Net operating income before change in expected credit losses and other credit risk provisions (reported basis)	2	**1,131**	903	833
Profit/(loss) attributable to shareholders of the parent company (reported basis)		**52**	20	(37)
At period end (€m)				
Total equity attributable to shareholders of the parent company		**8,115**	5,968	6,555
Total assets		**235,725**	172,114	180,946
Risk-weighted assets		**47,482**	35,514	36,248
Loans and advances to customers (net of impairment allowances)		**56,315**	44,567	46,997
Customer accounts		**54,940**	38,748	41,906
Capital ratios (fully loaded)	3			
Common equity tier 1 (%)		**13.4**	12.2	13.1
Tier 1 (%)		**14.5**	13.7	14.5
Total capital (%)		**16.6**	15.2	15.7
Performance, efficiency and other ratios (annualised %)				
Annualised return on average shareholders' equity (%)	4	**1.4**	0.7	(1.3)
Pre-tax return on average risk-weighted assets (adjusted basis) (%)		**0.2**	0.1	0.2
Cost efficiency ratio (adjusted basis) (%)	5	**86.9**	94.9	96.0
Liquidity Coverage Ratio (LCR) (%)		**123**	169	128
Net Stable Funding Ratio (NSFR) (%)		**111**	112	113

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 9 to 10.*
2 *Net operating income before change in expected credit losses and other credit risk provisions is also referred to as revenue.*
3 *Capital ratios as detailed in the Capital section on pages 31 to 39.*
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 change in expected credit losses and other credit risk provisions (adjusted). Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*

Strategy

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

HSBC's strategy is built around long-term trends and reflects its distinctive advantages.

Long-term trends: increasing global connectivity

The international flow of goods, services and capital continues to expand, supported by the development of technology and data in personal and commercial exchanges.

Distinctive advantages

In this environment, HSBC's competitive advantages come from unrivalled global presence, which enables clients to participate in the most attractive global growth opportunities, and a universal banking model, which serves the full range of banking customers through four global businesses, from individual savers to large multinational corporations.

HSBC France

HSBC operates in 66 countries and territories and France is one of the eight priority markets in which it aspires to be the leading international bank.

HSBC France can rely on HSBC Group's international network and strong brand to enhance its competitive edge and service clients with high value-added products and services.

HSBC France's strategy is to develop a modernised universal banking model, differentiating itself on its unique international network, and leveraging its Global Banking and Markets positioning as a strategic platform in Euro-denominated activities for the HSBC Group. HSBC France also relies on the quality of its wealth management expertise and digital experience while accelerating the pace of its transformation and maintaining its objectives of cost and risk-weighted assets control to improve profitability.

Within the framework of the UK's withdrawal from the European Union and in addition to the 2018 transfers from HSBC Bank plc to HSBC France, HSBC France acquired some of the branch activities of HSBC Bank plc in seven European Economic Area ('EEA') countries as described in the section 'The UK's withdrawal agreement from the European Union'. As a result, HSBC France's strategy now integrates a broader European proposition that aims at helping businesses and customers across the European Union to thrive and prosper, notably through new banking products and services.

Products and services

Retail Banking and Wealth Management ('RBWM')

Customers

RBWM serves individuals, especially internationally oriented.

Products and services

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

Markets

France and Greece.

Commercial Banking ('CMB')

Customers

CMB customers range from small enterprises focused primarily on their domestic markets to corporates operating globally.

Products and services

HSBC France offers working capital solutions, term loans, payment services, trade facilitation, advisory, and financial markets.

Markets

France, Spain, Italy, Belgium, the Netherlands, Ireland, Greece, the Czech Republic and Poland.

Global Banking & Markets ('GB&M')

Customers

GB&M supports major government, corporate and institutional clients worldwide.

Products and services

GB&M delivers a comprehensive range of banking solutions, including advisory, vanilla and structured financing products, access to debt and equity markets, project finance, Global Liquidity & Capital Management and Global Trade Receivable Finance solutions, and financial markets solutions.

Markets

France, Spain, Italy, Belgium, the Netherlands, Ireland, Greece, the Czech Republic, Poland, Luxembourg.

Global Private Banking ('GPB')

Customers

GPB serves high net worth individuals and families, including those with international banking needs.

Products and services

GPB provides a full range of Investment management and Private Wealth Solutions to protect and preserve wealth for future generations.

Markets

France.

Process of UK withdrawal from the European Union

The UK was due to leave the EU on 31 March 2019, but after agreeing an extension with the EU it is now due to leave by 31 October 2019. Before then, a Withdrawal Agreement under Article 50 will need to be approved by the UK and European parliaments. If an agreement is not approved by this date, the default legal position is that the UK will leave the EU without a deal, unless another extension is agreed with the EU.

Once the UK has formally left the EU, a comprehensive trade deal will take several years to negotiate. A period of transition until 31 December 2020 has been agreed between the UK and the EU, which can be extended by up to two years. However, there will be no legal certainty until this is enshrined in the Withdrawal Agreement.

HSBC Group's programme to manage the impact of the UK leaving the EU was set up in 2017 and has now been broadly completed. Our focus has been on four main components: legal entity restructuring; product offering; customer migrations; and employees.

Legal entity restructuring

Following the transfers in 2018, HSBC France successfully acquired some of the branch activities of HSBC Bank plc in the Netherlands, Italy, Spain, the Czech Republic, Belgium and Ireland on 1 February 2019, and Luxembourg on 1 March 2019.

HBEU's branches in seven EEA countries relied on passporting out of the UK. The assumption was made that passporting will no longer be possible following the UK's departure from the EU and therefore the branch business were transferred to newly established branches of HSBC France, HSBC's primary banking entity authorised in the EU. This was completed in the first semester of 2019 with intra-group capital increases totalling EUR 1.6 billion.

Product offering

To support customer migrations and new business after the UK's departure from the EU, we have expanded and enhanced our existing product offering in France for CMB and GB&M clients.

New product capacities include Euroclearing, Global Markets product build-out in FX, Fixed income and equities, and a new HSS platform.

Building the full Global Liquidity and Cash Management proposition in France (in particular by delivering Euroclearing from HBFR for the Group), leveraging France initiatives on Supply Chain and Pan-European receivable finance, building a global Custody hub in France for EEA clients (cash accounts management, credit, deposits and market products), and offering new Global Markets products and services (full coverage of FX and rates product, cash equity and equity derivatives proposition) are the main priorities.

Customer migrations

HSBC Group's priority is to provide continuity of service, and while its intention is to minimise the level of change for its customers, some EEA incorporated clients will be required to migrate from the UK to HSBC France. Client migrations are currently ongoing and HSBC is working in close collaboration with clients to make the transition as smooth as possible.

Employees

The migration of EEA-incorporated clients will require us to strengthen our local teams. We expect the majority of roles to be filled through hires.

Across the programme, we have made good progress in terms of ensuring we are prepared for the UK leaving the EU. However, there remain execution risks, many of them linked to the uncertain political environment and clients wanting to wait for as long as possible before they migrate to HSBC France (or another EU entity), as described in the 'Risk factors' section. Risks are monitored continuously, with vulnerable industry sectors reviewed by management to determine if adjustments to HSBC Group and HSBC France's risk policy or appetite are required.

Economic background

The first semester of 2019 amplified the deceleration in the global economy, already noted in recent quarters. In China, rising trade tensions with the US may accelerate the slowdown observed in the activity, despite fiscal and monetary stimulus measures taken by Beijing and the expected resume in trade negotiations following the Osaka G20 Summit. Nevertheless, the contagion effect on the world economy of higher tariffs between China and the US is indisputably negative, weighing in particular on investment and consumption.

While China is still seeking to continue to dampen its debt ratio but at the same time to stimulate its economy, and against a backdrop where the US are in their longest expansion business cycle (since mid-2009) despite important fiscal and external imbalances, a larger number of central banks have decided or are expected to increase the accommodative stance of their monetary policy in order to offset growing economic headwinds.

In the US, a robust labour market, a persistently upward trend in equity markets and the reinforced cautious approach from the Fed suggest the 2019 economic expansion may remain above its potential. However, the economic slowdown registered in Asia and in Europe is being added to a lacklustre US domestic demand in the US in Q1. Consequently, in June, the Fed showed a clearer willingness expressed by several FOMC members to consider possible rate cuts this year.

In Europe, the 2019 year began on a more fragile ground, notably due to the Italian economic recession in the second semester of 2018 and difficulties faced by the German industry. Uncertainties stemmed from negotiations between the UK and the rest of the EU, but also from the US trade policy, added to disappointments resulting from a modest household consumption, in France in particular, and from fiscal imbalances noted in several economies. In addition, despite the unemployment rate being back mid-2019 to its lowest level since 2008, a stubbornly low inflation rate in the eurozone has led the European central bank ('ECB') to maintain policy rates at low levels for an unexpectedly longer period of time, even stating in June its readiness, if necessary, to increase the accommodative stance of its monetary policy.

For multiple reasons, the second semester of 2019 may be crucial. Chinese policymakers' decisions aimed at stimulating the private sector should lead to a more dynamic activity, while the expansionary orientation of most monetary policies should become stronger abroad. In Europe, a new presidency for the European Commission and also for the ECB have been announced.

Regulatory environment

Since the implementation of the Banking Union by the Eurozone member states in 2014, HSBC France has been primarily supervised by the European Central Bank ('ECB'), in association with the French Prudential Supervision and Resolution Authority ('*Autorité de Contrôle Prudentiel et de Resolution*', 'ACPR'). The latter remains responsible for certain areas, such as controls regarding money laundering and terrorism financing as well as ensuring client protection. 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.

An international political agreement has been reached in early 2019 by the Basel Committee regarding the revision of the market risk assessment framework, in particular the Fundamental review of the trading book ('FRTB'). This agreement will be transposed into European law, along with the Basel agreement from December 2017, through a political proposal at the European Commission in the course of 2020. The EBA, the European Banking Authority, has updated its impact estimate of this agreement, which could lead to an average 25 per cent increase of RWA by 2027 for European banks. This estimate should be taken with caution, as it does not take into account the FRTB revision of January 2019 and many uncertainties remain as far as the modalities of implementation in Europe are concerned.

At the European Union level, the new 'Banking package' was published in June. The new directives and regulations introduce in particular new minimum leverage ratio requirements, a new long term minimum liquidity requirement (through the Net Stable Funding Ratio, NSFR) and a more stringent large exposures framework. This new banking package also covers resolution issues and introduces new requirements on eligible liabilities for significant subsidiaries of large banking groups such as HSBC France. Most of these measures will be applicable as of 2021. Finally, the new legislation will require to establish around 2023 a new European intermediate parent undertaking overseeing all HSBC group entities within the European Union.

A new European regulation on non-performing exposures entered into force in April, in addition to the different ECB requirements. It includes a progressive loss provisioning schedule for new non-performing exposures, according to their nature and whether the positions are collaterised.

Furthermore, the Eurogroup reached an agreement in December 2018 on the modalities of the 'backstop' to the Single Resolution Fund. This backstop is expected to be implemented at the latest by 2024 through the contributions of both the European Union banks and the European Stability Mechanism.

In France, it should be noted that a 0.25 per cent countercyclical own funds buffer applicable to exposures on entities located in France entered into force on the 1st of July 2019, and will be raised to 0.5 per cent in April 2020.

As regards HSBC France specifically, the European Central Bank carried out a Supervisory Review and Evaluation Process ('SREP') in 2018, as it has for all major Eurozone institutions every year since the introduction of the Single Supervisory Mechanism ('SSM'). This process evaluated the business model of the bank, its governance, 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 13.5 per cent from the 1st of January 2019. That figure, which includes both the mandatory minimum capital figure of 8 per cent, a 2.5 percent capital conservation buffer and the Pillar 2 requirement ('P2R') of 3 per cent, was published by HSBC France on 29th of November 2018. The ECB also provided a Pillar 2 guidance ('P2G') to HSBC France.

Financial summary

The financial statements commented on below were prepared on the basis of the HSBC France group's consolidated scope, the financial statements of which are prepared in accordance with IFRS as defined in Note 1 (see page 46 and following) to the condensed consolidated financial statements. They were subject to a limited review by the Statutory Auditors.

In the first half of 2019, HSBC France acquired some assets and liabilities of seven European branches of HSBC Bank plc (in Belgium, Czech Republic, Ireland, Italy, Luxembourg, Netherlands and Spain). Total assets of those branches amounted to EUR 14.5 billion on 30 June 2019. Financials for the year 2018 were not restated on a pro-forma basis.

Summary consolidated income statement

	Half-year to		
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	€m	€m	€m
Net interest income	**545**	500	511
Net fee income	**394**	286	307
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	**13**	59	(35)
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**792**	(110)	(528)
Changes in fair value of long-term debt and related derivatives	**—**	(3)	1
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**94**	39	74
Gains less losses from financial investments	**11**	11	3
Dividend income	**—**	4	(4)
Net insurance premium income	**1,252**	1,081	945
Other operating income/(expense)	**91**	48	22
Total operating income	**3,192**	1,915	1,296
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(2,061)**	(1,012)	(463)
Net operating income before change in expected credit losses and other credit impairment charges	**1,131**	903	833
Change in expected credit losses and other credit impairment charges	**(54)**	(15)	25
Net operating income	**1,077**	888	858
Total operating expenses	**(1,026)**	(878)	(823)
Operating profit/(loss)	**51**	10	35
Share of profit in associates and joint ventures	**—**	—	—
Profit/(loss) before tax	**51**	10	35
Tax expense	**1**	10	(73)
Profit/(loss) for the period	**52**	20	(38)
Attributable to:			
– shareholders of the parent company	**52**	20	(37)
– non-controlling interests	**—**	—	(1)

Reported performance

Net interest income increased by EUR 45 million to reach EUR 545 million in the first half of 2019 and included the integration of the European entities for EUR 81 million. The context of low interest rates continues to penalise the net interest margin, particularly on Retail Banking, despite a positive volume effect across all the businesses.

Net fee income was EUR 394 million in the first half of 2019, compared to EUR 286 million in the first half of 2018. Fees increased in Global Banking and Markets, and the integration of European branches represented EUR 88 million in 2019.

Net income from financial instruments held for trading or managed on a fair value basis fell to EUR 13 million compared to EUR 59 million in the first half of 2018. This trend resulted from Global Markets whose revenues were burdened by lower client demand and margin compression, and negative variation of the market value of the instruments held by the insurance company, partly offset by the integration of European branches.

Net income from assets and liabilities of insurance measured at fair value through profit and loss was EUR 792 million compared to EUR -110 million on the same period of the previous year. This evolution reflected the change in the market value of assets held by the insurance company on behalf of its customers partly with respect to unit-linked policies. The counterpart of this increase was the change in liabilities to policyholders (see below).

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss totalled EUR 94 million, increasing by EUR 55 million compared to prior year, mainly due to favourable movements on insurance portfolio, a revalorisation of some shareholdings and favourable impact of loans and advances that failed the SPPI tests ('Solely Payment of Principal and Interests').

Gain less losses from financial investments was stable at EUR 11 million.

Insurance premium income was EUR 1,252 million in the first half of the year, compared to EUR 1,081 million as at 30 June 2018.

Other operating income came to EUR 91 million versus EUR 48 million a year previously, mainly reflecting the change in PVIF ('Present Value of In-force insurance long-term business'). The variation of the accounting PVIF was EUR 54 million for the first half of 2019 compared to EUR 45 million for the first half of 2018 (cf. Note 5 Appendix to the income statements).

Net insurance claims and movements in liabilities to policyholders were EUR -2,061 million in the first half of 2019, from EUR -1,012 million in the first half of 2018. This 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.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR 1,131 million, from EUR 903 million in the first half of 2018. This increase reflected the integration of European branches, a positive volume effect and increase in net fee income, despite the unfavourable impact related to the low rates environment on French retail banking and the adverse context in the Euro sovereign debt market.

Change in expected credit losses and other credit impairment charges were EUR 54 million versus EUR 15 million in the first half of 2018. The increase came from both increasing provision in impairments in Global Banking and Markets partly offset by historically low level of cost of risk on other businesses.

Operating expenses totalled EUR 1,026 million in the first half of 2019, compared with EUR 878 million in the year-earlier period. This included the integration of European branches for EUR 121 million and the increase in the Single resolution fund contribution (EUR 7 million). Moreover, HSBC France is continuing its investment programme in the areas of IT infrastructure, digital banking, the fight against financial crime as well as enhancing its existing product offering to support our clients in a post-UK's departure from the EU environment.

Consolidated Profit before tax was EUR 51 million, in growth compared to EUR 10 million for the first half of 2018.

Net profit attributable to shareholders of the parent company was EUR 52 million in the first half of 2019.

Adjusted performance

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.

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 inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-group elimination items are presented in the Corporate Centre.

A description of the Global businesses is provided on pages 8 and 9 of the *Annual Report and Accounts 2018*.

By operating segment

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

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Half-year to 30 Jun 2019					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Reported revenue	**415**	**333**	**322**	**28**	**33**	**1,131**
Significant revenue items	**—**	**—**	**2**	**—**	**1**	**3**
– debit valuation adjustment	**—**	**—**	**2**	**—**	**—**	**2**
– fair value movement on non-qualifying hedges	**—**	**—**	**—**	**—**	**1**	**1**
Adjusted revenue	**415**	**333**	**324**	**28**	**34**	**1,134**
	Half-year to 30 Jun 2018					
Reported revenue	406	258	221	27	(9)	903
Significant revenue items	—	—	(3)	—	—	(3)
– debit valuation adjustment	—	—	(3)	—	—	(3)
– fair value movement on non-qualifying hedges	—	—	—	—	—	—
Adjusted revenue	406	258	218	27	(9)	900
	Half-year to 31 Dec 2018					
Reported revenue	343	256	219	25	(10)	833
Significant revenue items	—	—	(3)	—	1	(2)
– debit valuation adjustment	—	—	(3)	—	—	(3)
– fair value movement on non-qualifying hedges	—	—	—	—	1	1
Adjusted revenue	343	256	216	25	(9)	831

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

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Half-year to 30 Jun 2019					
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Reported operating expenses	**(416)**	**(212)**	**(315)**	**(24)**	**(59)**	**(1,026)**
Significant cost items	**1**	**2**	**18**	**—**	**20**	**41**
– restructuring costs and other provisions	**1**	**1**	**9**	**—**	**3**	**14**
– costs associated with the UK's exit from the EU	**—**	**1**	**9**	**—**	**17**	**27**
Adjusted operating expenses	**(415)**	**(210)**	**(297)**	**(24)**	**(39)**	**(985)**
	Half-year to 30 Jun 2018					
Reported operating expenses	(409)	(186)	(218)	(23)	(42)	(878)
Significant cost items	—	1	7	—	16	24
– cost to establish UK ring-fenced bank (E&M)	—	—	—	—	—	—
– costs associated with the UK's exit from the EU	—	1	7	—	16	24
Adjusted operating expenses	(409)	(185)	(211)	(23)	(26)	(854)
	Half-year to 31 Dec 2018					
Reported operating expenses	(395)	(185)	(204)	(21)	(18)	(823)
Significant cost items	—	1	8	—	16	25
– cost to establish UK ring-fenced bank (E&M)	—	—	—	—	1	1
– costs associated with the UK's exit from the EU	—	1	8	—	15	24
Adjusted operating expenses	(395)	(184)	(196)	(21)	(2)	(798)

Net impact on profit before tax by business segment

	Half-year to 30 Jun 2019					
	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	**3**	**122**	**(52)**	**4**	**(26)**	**51**
Significant revenue items	**—**	**—**	**2**	**—**	**1**	**3**
Significant cost items	**1**	**2**	**18**	**—**	**20**	**41**
Adjusted profit/(loss) before tax	**4**	**124**	**(32)**	**4**	**(5)**	**95**
Net impact on reported profit and loss	**1**	**2**	**20**	**—**	**21**	**44**
	Half-year ended 30 Jun 2018					
Reported profit/(loss) before tax	(6)	61	—	5	(50)	10
Significant revenue items	—	—	(3)	—	—	(3)
Significant cost items	—	1	7	—	16	24
Adjusted profit/(loss) before tax	(6)	62	4	5	(34)	31
Net impact on reported profit and loss	—	1	4	—	16	21
	Half-year ended 31 Dec 2018					
Reported profit/(loss) before tax	(49)	82	21	8	(27)	35
Significant revenue items	—	—	(3)	—	1	(2)
Significant cost items	—	1	8	—	16	25
Adjusted profit/(loss) before tax	(49)	83	26	8	(10)	58
Net impact on reported profit and loss	—	1	5	—	17	23

Adjusted profit/(loss) for the period

	Half-year to 30 Jun 2019					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
Net operating income before expected credit loss and other credit risk provisions	**415**	**333**	**324**	**28**	**34**	**1,134**
Change in expected credit loss and other credit risk provisions	**4**	**1**	**(59)**	**—**	**—**	**(54)**
Net operating income	**419**	**334**	**265**	**28**	**34**	**1,080**
Total operating expenses	**(415)**	**(210)**	**(297)**	**(24)**	**(39)**	**(985)**
Operating profit/(loss)	**4**	**124**	**(32)**	**4**	**(5)**	**95**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted profit/(loss) before tax	**4**	**124**	**(32)**	**4**	**(5)**	**95**
	Half-year to 30 Jun 2018					
Net operating income before loan impairment charges and other credit risk provisions	406	259	218	27	(10)	900
Change in expected credit loss and other credit risk provisions	(3)	(12)	(3)	1	2	(15)
Net operating income	403	247	215	28	(8)	885
Total operating expenses	(409)	(185)	(211)	(23)	(26)	(854)
Operating profit/(loss)	(6)	62	4	5	(34)	31
Share of profit in associates and joint ventures	—	—	—	—	—	—
Adjusted profit/(loss) before tax	(6)	62	4	5	(34)	31
	Half-year to 31 Dec 2018					
Net operating income before loan impairment charges and other credit risk provisions	343	255	216	25	(8)	831
Change in expected credit loss and other credit risk provisions	3	12	6	4	—	25
Net operating income	346	267	222	29	(8)	856
Total operating expenses	(395)	(184)	(196)	(21)	(2)	(798)
Operating profit/(loss)	(49)	83	26	8	(10)	58
Share of profit in associates and joint ventures	—	—	—	—	—	—
Adjusted profit/(loss) before tax	(49)	83	26	8	(10)	58

Adjusted performance

Adjusted profit before tax for HSBC France was EUR 95 million, higher than the EUR 31 million recorded in the year-earlier period and EUR 58 million in the second half of 2018.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 1,134 million, up from EUR 900 million in the first half of 2018. The increase was mainly related to the integration of the European branches of HSBC France, the growth in revenues for Global Banking, a favourable PVIF movement and resilient revenues for Retail Banking and Wealth Management and Commercial Banking in spite of persisting low interest rates.

It was partly offset by the decrease in revenues in Euro rates markets.

Change in expected credit losses and other credit impairment charges were EUR 54 million versus EUR 15 million in the first half of 2018, due to an increasing provision in the impairments for Global Banking and Markets, partly offset by reversals recorded in Retail Banking and Wealth Management and in Commercial Banking.

Adjusted operating expenses totalled EUR 985 million in the first half of 2019, compared with EUR 854 million in the year-earlier period. The increase reflected the integration of the European branches of HSBC France, the rising contribution to the Single Resolution Fund, the ongoing costs associated with the United Kingdom's withdrawal from the European Union, as well as ongoing spending and investment in IT infrastructure, digital banking and fight against financial crime.

Retail Banking and Wealth Management ('RBWM')

Adjusted Profit Before Tax was EUR 4 million in 1H 2019, EUR 10 million above 1H 2018. This is the result of lower net interest margin of the retail banking market in France driven by adverse rate environment, offset by favourable variations of PVIF.

Adjusted revenues were EUR 415 million in 1H 2019 versus EUR 406 million in 1H 2018. Revenues were favourably impacted by the favourable mark-to-market variation of Visa Plc preferred shares and by PVIF variation at EUR +51 million versus EUR +44 million in 1H 2018. Adverse market variation impacts on PVIF were more than offset by the new fee sharing agreement on unit-link investments between insurance, asset management and the bank. Bank Net Interest Margin was adversely impacted by low-rate environment leading to margin compression on Deposits partly offset by the growth of Deposit and Loan balances. Bank Net Fees and Commissions were stable in a competitive and constrained environment.

Loan Impairment Charges were creditor by EUR 4 million in 1H 2019 versus a charge of EUR 3 million in 1H 2018 with improvement of credit portfolio risk profile in France.

Adjusted Operating Expenses at EUR 415 million versus EUR 409 million in 1H 2018 included an increase in investments in information systems and digital.

Commercial Banking ('CMB')

Adjusted profit before tax was EUR 124 million at 30 June 2019, compared to EUR 62 million in the first half of the previous year. PBT of EEA branches was EUR 46 million at half year.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 333 million, from EUR 259 million in the first half of 2018. Revenue was affected by the continuation of low interest rates on deposits, offset by growth of the loan book, despite a really competitive market that brings margin down. The contribution from EEA branches reached EUR 79 million at the end of June 2019.

Expected credit loss and other credit risk provisions amounted to a net reversal of EUR 1 million compared with a charge of EUR 12 million over the first half of 2018.

Adjusted operating expenses, at EUR 210 million compared with EUR 185 million as at 30 June 2018. The year 2019 includes the expenses of the integrated EEA branches for EUR 36 million. The decrease of expenses in France is mainly driven by technology and corporate real costs.

Global Banking and Markets ('GB&M')

Adjusted profit before tax for the first half of 2019 was EUR -32 million, from EUR 4 million in the first half of 2018.

Adjusted net operating income before expected credit loss and other credit risk provisions was EUR 324 million, which represented an increase from EUR 218 million in the first half of 2018. Revenues were impacted by the integration of branches which generated EUR 89 million in the first half of 2019, from EUR 9 million in the first half of 2018.

Global Markets revenue remained strongly burdened by margin compression against the backdrop of strong variation in volatility levels in Euro rates markets, despite increase in primary activities and in customer demand on secondary activities. Structured rates products, mainly USD, were negatively impacted by the decrease of interest rates.

Revenue in Global Banking rose by 27 per cent mainly thanks to Credit & Lending activities with both French and newly integrated international clients, and strong debt capital market activities, particularly with public sector.

Other GBM activities also increased, driven by securities services in the Luxembourg branch and transaction banking activities (clearing, European payment platform, guarantees).

Change in expected credit loss and other credit risk provisions represented a EUR 59 million provision in the first half of 2019, compared with provision of EUR 3 million over the first half of 2018.

Adjusted operating expenses were EUR 297 million, compared to EUR 211 million in the first half of 2018. Costs linked to the branches were EUR 58 million in the first half of 2019, from EUR 7 million the year before.

Global Private Banking ('GPB')

Adjusted profit before tax was at EUR 4.4 million in H1 2019 vs EUR 4.8 million in 2018.

Adjusted revenues stood at EUR 28 million in H1 2019 vs EUR 27 million in prior year. Net interest income increased, driven by growing lending portfolio. Fees and other income benefited from strong momentum in Net New Money and were adversely impacted by unfavourable equity market conditions in Q4 2018.

Loan impairment charges were reduced by EUR 0.5 million vs a EUR 0.6 million release in 2018, in a context of lending balance sheet growth, supported by proactive credit risk management.

Adjusted operating expenses stood at EUR 24 million vs EUR 23 million in 2018.

Corporate Centre

Adjusted profit before tax was EUR -5 million from EUR -34 million in the first half of 2018. The Corporate Centre comprises treasury and Balance sheet management activities along with operating income and expense items that are not allocated to the global businesses.

Profit before tax by country

	Half-year to 30 Jun 2019					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking & Markets	Global Private Banking	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m
France	7	78	(86)	4	(26)	(23)
Spain	—	13	13	—	—	26
Czech Republic	—	11	—	—	2	13
Ireland	—	7	4	—	—	11
Netherlands	—	11	1	—	(1)	11
Other	(4)	2	16	—	(1)	13
Profit/(loss) before tax	**3**	**122**	**(52)**	**4**	**(26)**	**51**
	Half-year to 30 Jun 2018					
France	(3)	63	(5)	5	(52)	8
Spain	—	—	—	—	—	—
Czech Republic	—	—	—	—	—	—
Ireland	—	—	—	—	—	—
Netherlands	—	—	—	—	—	—
Other	(3)	(2)	5	—	2	2
Profit/(loss) before tax	(6)	61	—	5	(50)	10
	Half-year to 31 Dec 2018					
France	(45)	81	18	8	(29)	33
Spain	—	—	—	—	—	—
Czech Republic	—	—	—	—	—	—
Ireland	—	—	—	—	—	—
Netherlands	—	—	—	—	—	—
Other	(4)	1	3	—	2	2
Profit/(loss) before tax	(49)	82	21	8	(27)	35

Outlook for the second half of 2019

Whilst there has not been a strong start to 2019, conditions are expected to improve in the second half of the year, in particular due to the monetary policy position of the main Central Banks. The Federal Reserve may announce interest rate decrease, whilst the European, the Japanese and the English Central Banks continue their accommodative policies. Moreover, the outlook for US-China trade war has improved as a potential trade agreement becomes more likely.

Nevertheless, many risks remain. First of all, June indicators from the American economy were disappointing, suggesting a possibility of an economic slowdown. Moreover, trade tensions could flare up again, while Chinese growth could once again be lower than expected. Finally, no agreement on the UK's departure from the EU in the end of 2019 could jeopardise the world economy.

Within this context, the French economy should remain resilient and could reach the 1.2 per cent GDP growth in 2019, due to household consumption and business investment supporting activity.

Review of business position

Summary consolidated balance sheet

	30 Jun 2019 €m	31 Dec 2018 €m
Total assets	**235,725**	180,946
Cash and balances at central banks	**15,233**	9,018
Trading assets	**20,818**	16,966
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**11,741**	10,495
Derivatives	**51,747**	31,777
Loans and advances to banks	**7,457**	6,197
Loans and advances to customers	**56,315**	46,997
Reverse repurchase agreements – non-trading	**34,441**	32,835
Financial investments	**17,313**	16,502
Other assets	**20,660**	10,159
Total liabilities	**227,581**	174,362
Deposits by banks	**13,378**	10,828
Customer accounts	**54,940**	41,906
Repurchase agreements – non-trading	**19,297**	18,921
Trading liabilities	**25,808**	23,145
Financial liabilities designated at fair value	**17,022**	14,584
Derivatives	**50,373**	31,298
Debt securities in issue	**3,550**	2,472
Liabilities under insurance contracts	**23,009**	21,335
Other liabilities	**20,204**	9,873
Total equity	**8,144**	6,584
Total shareholders' equity	**8,115**	6,555
Non-controlling interests	**29**	29

Balance sheet information by segment

	Retail Banking and Wealth Management €m	Commercial Banking €m	Global Banking and Markets €m	Private Banking €m	Corporate Centre €m	Total €m
As at 30 Jun 2019	**47,947**	**23,325**	**148,169**	**2,512**	**13,772**	**235,725**
– *of which:*						
loans and advances to customers	***19,962***	***17,632***	***16,741***	***2,496***	***(516)***	***56,315***
customers accounts	***18,231***	***19,991***	***15,046***	***1,008***	***664***	***54,940***
As at 31 Dec 2018	45,916	15,060	105,352	2,339	12,279	180,946
– *of which:*						
loans and advances to customers	*19,477*	*13,137*	*12,608*	*2,325*	*(550)*	*46,997*
customers accounts	*17,190*	*11,787*	*12,088*	*828*	*13*	*41,906*

HSBC France's consolidated balance sheet had total assets of EUR 235.7 billion at 30 June 2019, versus EUR 180.9 billion at 31 December 2018. This increase was mainly driven by the consolidation of European branches and a markets activities rise.

Assets

- deposits with the Central Bank increased from EUR 9 billion to EUR 15.2 billion, due to the integration of the European branches and the HSBC France strategy related to the liquid assets maintained at Central Bank;
- loans and advances to customers were up to EUR 56.3 billion, due to the integration of the European branches (for EUR 6.3 billion) and a sound production across all businesses;
- derivatives were up by EUR 19.9 billion, trading assets displayed a EUR 3.8 billion increase and other assets increased by EUR 10.5 billion mainly due to client-clearing accounts.

Liabilities

- customer accounts rose from EUR 41.9 billion to 54.9 billion during the first half, mostly due to the integration of the European branches (for EUR 12.8 billion);
- derivatives increased by EUR 19.1 billion, trading liabilities rose by EUR 2.7 billion and other liabilities displayed a EUR 10.3 billion increase mainly due to client-clearing accounts;
- shareholders' equity, at EUR 8.1 billion, rose during the first half following the different capital increases mentioned above.

Capital

During the first half of 2019, HSBC France has reviewed its capital structure and performed several operations described in the capital management section on page 31.

At 30 June 2019, the 'fully loaded' Common equity tier 1 ('CET1') ratio stands at 13.4 per cent, 'fully loaded' total capital ratio was 16.6 per cent and 'fully loaded' Leverage ratio was 3.7 per cent.

Liquidity and funding

The bank's medium- and long-term debt and the main funding operations performed during the first half of 2019 are presented in the Liquidity and funding section on page 29.

At 30 June 2019, the short-term Liquidity coverage ratio ('LCR') computed in respect of the EU Delegated act was 123 per cent and the long-term Net stable funding ratio ('NSFR') computed in respect of BCBS 295 guidelines was 111 per cent.

Average number of persons employed by HSBC France

		Half-year to		
		30 Jun	30 Jun	31 Dec
	Footnotes	**2019**	2018	2018
Retail Banking and Wealth Management		**4,052**	3,915	3,929
Commercial Banking		**1,716**	1,384	1,494
Global Banking and Markets		**1,105**	650	682
Global Private Banking		**121**	112	113
Corporate Centre		**15**	10	12
Support functions and others	*1*	**2,980**	2,857	2,960
Total	*2*	**9,989**	8,928	9,190

1 Including pre-retirement (CFCS) and expatriates.
2 Permanent contracts (CDI) and fixed terms contracts (CDD) within HSBC France (including the European branches) and its subsidiaries.

Credit ratings

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

	Standard & Poor's	Moody's	Fitch Ratings
Long-term Unsecured Debt	AA -	Aa3	AA -
Outlook	Stable	Stable	Neg Watch
Short-term Rating	A-1+	P-1	F1+
Last update	10 Aug 2018	27 Sep 2017	08 Mar 2018

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

On 1st March 2019, Fitch Ratings placed the Long-Term Issuers' Default Ratings of 19 UK Banking Groups on Rating Watch Negative ('RWN'). The RWN reflects the heightened uncertainty over the ultimate outcome of the UK's departure from the EU process and the increased risk that a disruptive 'no-deal' on the UK's departure from the EU could result most likely with Negative Outlooks being assigned. On 8 March, Fitch also placed HSBC France and HSBC Trinkaus and Burkhardt under the same RWN. Ratings remained unchanged during the first half of 2019 for other agencies.

Risks

Risk factors

We have identified a comprehensive list of risk factors that cover the broad range of risks our businesses are exposed to. A number of the risk factors have the potential to have a material adverse effect on our business, prospects, financial condition, capital position, reputation, results of operations and/or our customers. They may not necessarily be deemed as top or emerging risks; however, they inform the ongoing assessment of our top and emerging risks that may result in our risk appetite being revised.

Macroeconomic risks

Current economic and market conditions may adversely affect HSBC France's results

Our earnings are affected by global, regional and local economic and market conditions. Uncertain and at times volatile economic conditions can create a challenging operating environment for financial services companies such as HSBC France. In particular, we may face the following challenges to our operations and operating model in connection with these factors:

- the demand for borrowing from creditworthy customers may diminish if economic activity slows or remains subdued;
- if capital flows are disrupted, some markets may impose protectionist measures that could affect financial institutions and their clients;
- if interest rates begin to increase, consumers and businesses may struggle with the additional debt burden which could lead to increased delinquencies and loan impairment charges;
- our ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption;
- market developments may depress consumer and business confidence beyond expected levels. If economic growth is subdued, for example, asset prices and payment patterns may be adversely affected, leading to greater than expected increases in delinquencies, default rates and loan impairment charges. However, if growth is too rapid, new asset valuation bubbles could appear, particularly in the real estate sector, with potentially negative consequences for banks; and
- a rise in protectionism, as may be driven by populist sentiment and structural challenges facing developed economies, could contribute to weaker global trade, potentially affecting HSBC France's traditional lines of business.

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

Geopolitical risks

The UK's withdrawal from the European Union may pose operating challenges to HSBC France in its adaptation to the new economic and regulatory environment

The UK electorate's vote and the exit agreement to leave the European Union may have a significant impact on general macroeconomic conditions in the United Kingdom, the European Union and globally. Negotiations of the UK's exit agreement, its future relationship with the EU and its trading relationships with the rest of the world have yet to be clarified, following the extension to 31 October 2019.

The UK's future relationship with the EU will have implications for the future business model for HSBC's London-based European cross-border banking operations, which relies on unrestricted access to the European financial services market (loss of EU 'passporting rights', discontinuation of the free movement of services and significant changes to the UK's immigration policy). As a result, meeting HSBC clients' needs after the UK's departure from the EU is requiring adjustments to HSBC European cross-border banking operations, including the transfer to HSBC France of several EEA-based HSBC entities (now completed) and the likely migration of impacted businesses and clients from the UK to its EEA subsidiaries, in particular HSBC France. HSBC France remains ready to support HSBC clients' migration and to ensure continuity of service.

HSBC France is tackling many challenges (legal, regulatory, organisational, operational, IT-related, HR-related, financial) as part of its adaptation programme to the post-UK's departure from the EU environment. These challenges are addressed as the project is being implemented.

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

Failure to comply with certain regulatory requirements would have a material adverse effect on the results and operations of HSBC France

HSBC France is subject to extensive regulation and supervision in the jurisdictions in which it operates. The rules applicable to banks seek principally to limit their risk exposure, preserve their stability and financial solidity and protect clients, depositors, creditors and investors. The rules applicable to financial services providers govern, among other things, the sale, placement and marketing of financial instruments, as well as the appropriate market conduct. HSBC France must also comply with requirements as to capital adequacy and liquidity, thus requiring significant resources. Non-compliance with applicable laws and regulations could lead to fines, damage to HSBC's reputation, forced suspension of its operations or the withdrawal of operating licences.

HSBC France is subject to a comprehensive legislative and regulatory framework, with fast moving developments

HSBC France businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, and interpretations in France, the EU, the UK and US and the other markets in which we operate. This is particularly the case given the current environment, where we expect government and regulatory intervention in the banking sector to remain high for the foreseeable future. Additionally, many of these changes have an effect beyond the country in which they are enacted, as regulators either enact regulation with extra-territorial impact or our operations mean that HSBC is obliged to give effect to 'local' laws and regulations on a wider basis.

In recent years, regulators and governments have focused on reforming both the prudential regulation of the financial services industry and the ways in which the business of financial services is conducted. Measures include enhanced capital, liquidity and funding requirements, the separation or prohibition of certain activities by banks, changes in the operation of capital markets activities, the introduction of tax levies and transaction taxes, changes in compensation practices and more detailed requirements on how business is conducted. These developments are expected to continue to change the way in which we are regulated and supervised, and could affect the manner in which we conduct our business activities, capital requirements or risk management; all of which could have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

HSBC France may fail to comply with all applicable regulations, particularly any changes thereto

Authorities have the power to bring administrative or judicial proceedings against us that could result in, among other things, the suspension or revocation of our licences, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions.

Areas where changes could have an adverse effect on our business, prospects, financial condition or results of operations include, but are not limited to:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which we operate;
- the structural separation of certain banking and other activities proposed or enacted in a number of jurisdictions;
- the transposition into EU law of the international agreement on a 'post-crisis' reform package within the Basel Committee including a revision of the market risk framework (Fundamental Review of the Trading Book 'FRTB') reached in January 2019 and the others reforms agreed upon in December 2017;
- the entry into force of the new 'banking package' (i.e. the Capital Requirements Regulation, the Capital Requirements Directive, the Bank Recovery and Resolution Directive and the Single Supervisory Mechanism Regulation), which was officially published in June 2019, with a large number of changes including *inter alia* a binding leverage ratio, the mandatory establishment of a EU Intermediate Parent Undertaking and a more stringent large exposures cap. Most of the measures will progressively enter into force from 2021 onwards;
- revised minimum requirement for own funds and eligible liabilities ('MREL'), with new rules for eligible instruments, binding subordination requirements and new requirements at the levels of significant subsidiaries;
- the corporate governance, business conduct, capital, margin, reporting, clearing, execution and other regulatory requirements to which HSBC France is or may become subject to in their role as a swap dealer;
- the increasing focus by regulators on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers and orderly/transparent markets, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets;
- restrictions on the structure of remuneration and increasing requirements to detail management accountability within the Group (e.g. the requirements of the Senior Managers and Certification Regime in the UK and elsewhere that are under consideration/implementation);
- the implementation of any conduct measures as a result of regulators' increased focus on institutional culture, employee behaviour and whistleblowing;
- the focus globally on data (including on data processing and subject rights/transfer of information) and financial technology risks and cybersecurity and the introduction of new and/or enhanced standards in this area;
- changes in national or supra-national requirements regarding the ability to offshore or outsource the provision of services and resources or transfer material risk to financial services companies located in other countries, that impact our ability to implement globally consistent and efficient operating models; and
- further requirements relating to financial reporting, corporate governance and employee compensation.

HSBC France may not be able to manage risks associated with the replacement of benchmark indices effectively

The expected replacement of key benchmark rates (LIBOR / EONIA / EURIBOR) with alternative benchmark rates introduces a number of risks for HSBC France, its clients, and the financial services industry more widely. This includes, but is not limited to:

- Legal risks, as changes required to documentation for new and existing transactions may be required;
- Financial risks, arising from any changes in the valuation of financial instruments linked to benchmark rates;
- Pricing risks, as changes to benchmark indices could impact pricing mechanisms on some instruments;
- Operational risks, due to the potential requirement to adapt IT systems, trade reporting infrastructure and operational processes; and
- Conduct risks, relating to communication with potential impact on customers, and engagement during the transition period.

There remains uncertainty regarding transition mechanisms and the relative levels of replacement indices and methodologies. Accordingly, it is not currently possible to determine whether, or to what extent, any such changes would affect HSBC France. However, the implementation of alternative benchmark rates may have a material adverse effect on our financial condition, customers and operations.

HSBC France is subject to tax-related risks in the countries in which we operate

HSBC France are subject to the substance and interpretation of tax laws in all countries in which we operate and are subject to routine review and audit by tax authorities in relation thereto. Our interpretation or application of these tax laws may differ from those of the relevant tax authorities and we provide for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters. Changes to tax law, tax rates and penalties for failing to comply could have a material adverse effect on our business, prospects, financial condition and results of operations.

Risks related to our business, business operations, governance and internal control systems

The delivery of our strategic actions is subject to execution risk

Robust management of critical time-sensitive and resource intensive projects is required to effectively deliver HSBC France's strategic priorities. HSBC France continues to implement a number of programmes (IT Modernisation, Regulatory, project related to the UK's departure from the EU, RBWM New Distribution Model) and the magnitude and complexity of the projects present heightened execution risk. The cumulative impact of the collective change initiatives underway within HSBC France is significant and has direct implications on HSBC France's resourcing and people. In addition, the completion of these strategic actions is subject to uncertain economic, market and regulatory context, inducing volatility in financial results and necessary adaptation of strategy execution to take new environment into account.

There also remains heightened risk around the execution of HSBC Group's strategy related to the UK's departure from the EU. The potential risks include regulatory breaches, onboarding of key personnel and clients, and connection to systems and processes during business transformation.

The failure to successfully deliver key strategic actions or other regulatory programmes could have a significant impact on HSBC France's financial condition, profitability, prospects and share price, as well as wider reputational and regulatory implications.

HSBC France remains susceptible to a wide range of cyber-risks that impact and/or are facilitated by technology

The threat from cyber-attacks remains a concern for our organisation, and failure to protect our operations from internet crime or cyber-attacks may result in financial loss, business disruption and/or loss of customer services and data or other sensitive information that could undermine our reputation and our ability to attract and keep customers. Ransomware and Distributed Denial of Service ('DDOS') attacks are an increasingly dominant threat across the industry. Since 2018, the bank was subjected to a small number of DDOS attacks on our external facing websites across the Group and no ransomware attacks. Although cyber-attacks had a negligible effect on our customers, services or firm, due to the increasing sophistication of cyber-attacks there is the potential for future attacks to have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

We may not achieve any of the expected benefits of our strategic initiatives

HSBC Group's strategy is built around two trends: the continued growth of international trade and capital flows, and wealth creation. So to respond to these trends, HSBC France's strategy aims at developing a modernised universal banking model and at leveraging its Global Banking and Markets positioning. The development and implementation of HSBC France's strategy requires difficult, subjective and complex judgements, including forecasts of economic conditions in France but also in various parts of the world. HSBC France may fail to correctly identify the trends it seeks to exploit and the relevant factors in making decisions as to capital deployment and cost reduction.

Key to achieving HSBC France's growth strategy is increasing the number of HSBC products held by its customers through driving cross-business synergies across HSBC Global Businesses but also cross-border synergies between HSBC Group's different entities in the world. HSBC France's competitors focus on both areas may limit HSBC France's ability to cross-sell additional products to its customers or it may influence HSBC France to sell its products at lower prices, reducing its net interest income and revenue from its fee-based products.

HSBC France's ability to execute its strategy may be limited by its operational capacity and the increasing complexity of the regulatory environment in which HSBC France operates. HSBC France continues with cost management initiatives, although they may be less efficient than expected.

HSBC France operates in markets that are highly competitive

HSBC France competes with other financial institutions in a highly competitive industry that continues to undergo significant change as a result of financial regulatory reform as well as increased public scrutiny stemming from the financial crisis and continued challenging economic conditions.

In this context, HSBC France targets internationally mobile wealth clients who need sophisticated global solutions and generally compete on the basis of the wide variety and quality of products and services that it can offer its customers, the expertise of its customer service, and the extensive distribution channels available for its customers.

Market. Continued and increased competition in these areas by incumbents and new entrants may negatively affect HSBC France's market share and/or cause HSBC France to increase its capital investment in its Global Businesses in order to remain competitive.

Pricing. There is also increased competitive pressure to provide products and services at current or lower prices. The low-rate environment still pressures traditional banks' net interest income, and customers demonstrate decreasing willingness to pay on simple operations. This leads most traditional banks to increase their fees on other products or services, while mobile banks and Fintechs rely on cutting-edge customer experience and products to both increase their customer base and revenues. Consequently, HSBC France's ability to reposition or reprice its products and services from time to time may be limited, and could be influenced significantly by the actions of its competitors. This could result in a loss of customers, market share, or revenues.

Technology. 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), or services better adapted to an online banking world via smartphones or tablets. New entrants to the market or new technologies could require us to spend more to modify or adapt our products to attract and retain customers.

The HSBC France risk management measures may not be successful

The management of risk is an integral part of all our activities. Risk constitutes our exposure to uncertainty and the consequent variability of return. Specifically, risk equates to the adverse effect on profitability or financial condition arising from different sources of uncertainty, including retail and wholesale credit risk, market risk, non-traded market risk, operational risk, insurance risk, concentration risk, liquidity and funding risk, litigation risk, reputational risk, strategic risk and regulatory risk. While HSBC France employees a broad and diversified set of risk monitoring and mitigation techniques, such methods and the judgements that accompany their application cannot anticipate every unfavourable event or the specifics and timing of every outcome. Failure to manage risks appropriately could have a material adverse effect on our business prospects, reputation, financial condition and results of operations.

Operational risks are inherent in our business

HSBC France are exposed to many types of operational risks that are inherent in banking operations, including fraudulent and other criminal activities (both internal and external, including cyber), breakdowns in processes or procedures and systems failure or non-availability. These risks are also present when we rely on outside suppliers or vendors to provide services to us and our customers clients, or through regulatory changes or significant projects impacting the Bank. These operational risks could have a material adverse effect on our business, customers and prospects, financial conditions and results of operations.

HSBC France's operations are subject to the threat of fraudulent activity

The risk of fraud has increased and made more complex by the digital transformations operated within HSBC, fraudsters may target any of our products, services and delivery channels (especially the online on-boarding), including lending, internet banking, payments, bank accounts and cards. This may result in financial loss to HSBC France, an adverse customer experience, reputational damage and potential regulatory action depending on the circumstances of the event, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations.

HSBC France's operations are subject to disruption from the external environment

HSBC France operations are sometimes subject to events that are outside our control. These events may be a case of *force majeure*, such as natural disasters and epidemics, geopolitical risks, including acts of terrorism and social unrest, and infrastructure issues, such as transport or power failure. These risk events may give rise to disruption to our services, result in physical damage and/or loss of life, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

HSBC France's operations utilise third-party and intra group suppliers and service providers

HSBC relies on third and intra group parties to supply goods and services. Global regulators have increased their scrutiny of the use of third-party service providers by financial institutions, including with respect to how outsourcing decisions are made and how key relationships are managed. Risks arising from the use of third parties may be less transparent and therefore more challenging to manage. The inadequate management of third-party risk could impact our ability to meet strategic, regulatory and client expectations. This may lead to a range of effects, including regulatory censure, civil penalties or damage both to shareholder value and to our reputation, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

HSBC France's operations are highly dependent on our information technology systems

The reliability and security of our information and technology infrastructure, and our customer databases are crucial to maintaining the service availability of banking applications and processes and to protecting the HSBC brand. The proper functioning of our payment systems, financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between our branches and main data processing centres, are critical to our operations. Critical system failure, any prolonged loss of service availability or any material breach of data security, particularly involving confidential customer data, could cause serious damage to our ability to service our clients, could breach regulations under which we operate and cause long-term damage to our business and brand that could have a material adverse effect on our business, prospects, financial condition and results of operations.

HSBC France's data management policies and processes may not be sufficiently robust

Critical business processes rely on large volumes of data from a number of different systems and sources. If data governance including retention and deletion, data quality and data architecture policies and procedures are not sufficiently robust, manual intervention, adjustments and reconciliations may be required to reduce the risk of error in reporting to senior management or regulators. Inadequate policies and processes may also affect our ability to use data within HSBC France to service customers more effectively and/or improve our product offering. This could have a material adverse effect on our business, prospects, financial condition and results of operations. Moreover, financial institutions that fail to comply with the principles for effective risk data aggregation and risk reporting as set out by the Basel Committee by the required deadline may face supervisory measures. In addition, failure to comply with new Global Data Privacy Requirements may result in regulatory sanctions. Any of these failures could have a material adverse effect on our business, prospects, financial condition and results of operations.

HSBC France's operations have inherent reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated. This might cause stakeholders to form a negative view of HSBC France and result in financial or non-financial effects or loss of confidence in HSBC France. Any material lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk.

Modern technologies, in particular online social media channels and other broadcast tools that facilitate communication with large audiences in short time frames and with minimal costs may significantly enhance and accelerate the effect of damaging information and allegations. Negative public opinion may adversely affect our ability to retain and attract customers, in particular, corporate and retail depositors, and retain and motivate staff, and could have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

HSBC France may suffer losses due to employee misconduct

Our Businesses and Functions are exposed to risk from potential non-compliance with HSBC policies, culture and values, and related employee misconduct such as fraud, corruption or negligence; all of which could result in regulatory sanctions, reputational damage or material financial losses. It is not always possible to deter employee's misconducts, and the precautions we take to prevent and detect them may not always be effective. This could have a material adverse effect on our business, prospects, reputation and results.

HSBC France relies on recruiting, retaining and developing appropriate senior management and skilled personnel

The demands being placed on the human resources of the bank remain at a very high level. The workload arising from evolving regulatory reform programs places increasingly complex and conflicting demands on the workforce. At the same time, the human resources operate in an employment market where expertise in key markets is often in short supply and mobile. The continued success of HSBC France depends in part on the retention of key members of its management team and wider employee base. The ability to continue to attract, train, motivate and retain highly qualified professionals and talented people who embrace HSBC core values is a key element of our strategy. The successful implementation of our growth strategy depends on the availability of skilled management in each of our businesses and functions, which may depend on factors beyond our control, including economic, market and regulatory conditions. If businesses or functions fail to staff their operations appropriately or lose one or more of their key senior executives/talent and fail to successfully replace them in a satisfactory and timely manner, or fail to implement successfully the organisational changes required to support the strategy, or fail to develop shared core values, our business prospects, financial condition and results of operations, including control and operational risks, could be materially adversely affected.

HSBC France's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements, assumptions and models are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to our results and financial position, based upon materiality and significant judgements and estimates, include impairment of loans and advances, goodwill impairment, valuation of financial instruments, deferred tax assets, provisions and interests in associates. The valuation of financial instruments measured at fair value can be subjective, in particular where models are used that include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments, future outcomes may differ materially from those assumed using information available at the reporting date. The effect of these differences on the future results of operations and the future financial position of HSBC France may be material. If the judgement, estimates and assumptions HSBC France use in preparing its consolidated financial statements are subsequently found to be materially different from those assumed using information available at the reporting date, this could affect our business, prospects, financial condition and results of operations.

Changes in accounting standards may have a material impact on how HSBC France reports its financial results and financial condition

HSBC France prepare our consolidated financial statements of HSBC in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations ('IFRICS') issued by the IFRS Interpretations Committee, and as endorsed by the EU. From time to time, the IASB or the IFRS Interpretations Committee may issue new accounting standards or interpretations which could materially impact how we report and disclose our financial results and financial condition as well as affect the calculation of our capital ratios, including the CET1 ratio.

HSBC France could also be required to apply a new or revised standards retrospectively, resulting in our restating prior period financial statements in material amounts.

HSBC France could incur losses or be required to hold additional capital as a result of model limitations or weaknesses

HSBC France uses models for a range of purposes in managing our business, including risk weighted assets calculations, stress testing, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial crime and fraud risk management and financial reporting. HSBC could face adverse consequences as a result of decisions that may lead to actions by management based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed. Regulatory scrutiny and supervisory concerns over banks' use of models is considerable, particularly the internal models and assumptions used by banks in the calculation of risk weighted assets. Risks arising from the use of models could have a material adverse effect on our business, prospects, financial condition, results of operations, minimum capital requirements and reputation.

Third parties may use us as a conduit for illegal activities without our knowledge

We are required to comply with applicable AML laws and regulations, and have adopted HSBC Group policies and procedures, as well as additional regulatory requirements, including Customer Due Diligence procedures and internal control framework and governance, aimed at preventing use of HSBC products and services for the purpose of committing or concealing financial crime.

A major focus of US and UK government policy relating to financial institutions in recent years has been preventing, detecting and deterring money laundering and enforcing compliance with US and EU economic sanctions at Group level.

This focus is reflected in part by our agreements with US and UK authorities relating to various investigations regarding past inadequate compliance with AML and sanctions laws. These consent orders do not preclude additional enforcement actions by bank regulatory, governmental or law enforcement agencies or private litigation. Our local French regulator remains strongly focus on AML-CTF matters within the French Banking industry.

A number of the remedial actions have been taken as a result of the matters to which the US Deferred Prosecution Agreement ('DPA') related, which are intended to ensure that the Group's businesses are better protected in respect of these risks. As HSBC have met their obligations under the DPA, the agreement has expired at the end of 2017. The Monitor overseeing HSBC progress under the DPA has also been serving since July 2013 as HSBC's Skilled Person under a 2012 Direction issued by the UK Financial Conduct Authority and will continue in that capacity for a period of time at the FCA's discretion.

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. In line with the Group heightened standards and organisation, HSBC France has continued to improve Financial Crime Compliance and Regulatory Compliance framework. However, there can be no assurance that these will be completely effective.

Moreover, in relevant situations, and where permitted by regulation, we may rely upon certain counterparties to maintain and properly apply their own appropriate AML procedures. While permitted by regulation, such reliance may not be effective in preventing third parties from using us (and our relevant counterparties) as a conduit for money laundering, including illegal cash operations, without our knowledge (and that of our relevant counterparties). Becoming a party to money laundering, association with, or even accusations of being associated with, money laundering will damage our reputation and could make us subject to fines, sanctions and/or legal enforcement. Any one of these outcomes could have a material adverse effect on our business, prospects, financial condition and results of operations.

We have significant exposure to counterparty risk

HSBC France are exposed to counterparties that are involved in virtually all major industries, and we routinely execute transactions with counterparties in financial services, including central clearing counterparties, commercial banks, investment banks, mutual funds, and other institutional clients. Many of these transactions expose HSBC France to credit risk in the event of default by our counterparty or client. Our ability to engage in routine transactions to fund our operations and manage our risks could be materially adversely affected by the actions and commercial soundness of other financial services institutions. Financial institutions are necessarily interdependent because of trading, clearing, counterparty or other relationships. As a consequence, a default by, or decline in market confidence in, individual institutions, or anxiety about the financial services industry generally, can lead to further individual and/or systemic difficulties, defaults and losses.

Mandatory central clearing of OTC derivatives, including under the EU's European Market Infrastructure Regulation, poses risks to HSBC. As a clearing member, we will be required to underwrite losses incurred at a Central Counterparty ('CCP') by the default of other clearing members and their clients. Hence, increased moves towards central clearing brings with it a further element of interconnectedness between clearing members and clients that we believe may increase rather than reduce our exposure to systemic risk. At the same time, our ability to manage such risk ourselves will be reduced because control has been largely outsourced to CCPs.

Where bilateral counterparty risk has been mitigated by taking collateral, credit risk for HSBC France may remain high if the collateral we hold cannot be realised or has to be liquidated at prices that are insufficient to recover the full amount of our loan or derivative exposure. There is a risk that collateral cannot be realised, including situations where this arises by change of law that may influence our ability to foreclose on collateral or otherwise enforce contractual rights.

Any such adjustments or fair value changes may have a material adverse effect on our financial condition and results of operations.

Market fluctuations may reduce our income or the value of our portfolios

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

Market movements will continue to significantly affect us in a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. Changes in interest rate levels, interbank spreads over official rates, yield curves and spreads affect the interest rate spread realised between lending and borrowing costs.

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

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

Liquidity, or ready access to funds, is essential to our businesses

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

Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding, and we place considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in our capital strength and liquidity, and on comparable and transparent pricing. Although deposits have been a stable source of funding historically, this may not continue.

We also access wholesale markets in order to provide funding to align asset and liability maturities and currencies. In May 2019, HSBC France issued EUR 1.0 billion of unsecured 5 years senior debt securities in the capital markets.

Unfavourable macroeconomic developments, market disruptions or regulatory developments may increase our funding costs or challenge the ability of HSBC France to raise funds to support or expand its businesses.

If we are unable to raise funds through deposits and/or in the capital markets, our liquidity position could be adversely affected, and we might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet our obligations under committed financing facilities and insurance contracts or to fund new loans, investments and businesses. We may need to liquidate unencumbered assets to meet our liabilities. In a time of reduced liquidity, we may be unable to sell some of our assets, or we may need to sell assets at reduced prices, which in either case could materially adversely affect our business, prospects, financial condition and results of operations. It is difficult to predict with any degree of accuracy changes in access to funds, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations.

Any reduction in the credit rating assigned to HSBC France could increase the cost or decrease the availability of our funding

Credit ratings affect the cost and other terms upon which we are able to obtain market funding. Rating agencies regularly evaluate HSBC France as well as its respective debt securities. Their ratings are based on a number of factors, including their assessment of the relative financial strength of HSBC France, its strategic importance within the HSBC group, as well as conditions affecting the financial services industry generally. There can be no assurance that the rating agencies will maintain HSBC France's current ratings or outlook. Any reductions in these ratings and outlook could increase the cost of our funding, limit access to capital markets and require additional collateral to be placed and, consequently, materially adversely affect our interest margins and our liquidity position. Under the terms of our current collateral obligations under derivative contracts, we could be required to post additional collateral as a result of a downgrade in HSBC France's credit rating. As a core subsidiary to the HSBC group, HSBC France's ratings are also likely to be affected by any change in the ratings of HSBC Bank PLC or HSBC Holdings PLC.

The overall impact is dependent on the size of any downgrade, whether the wider financial services industry is also impacted at the same time and how HSBC France is viewed vis-a-vis the overall market.

Risks concerning borrower credit quality are inherent in our businesses

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties in derivative transactions are inherent in the businesses of HSBC France. Adverse changes in the credit quality of our borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems could reduce the recoverability and value of our assets, and require an increase in our loan impairment charges. The risk is that we fail to estimate accurately the effect of factors that we identify or fail to identify relevant factors. Further, the information HSBC France use to assess the creditworthiness of our counterparties may be inaccurate or incorrect. Any failure by HSBC France to accurately estimate the ability of our counterparties to meet their obligations may have a material adverse effect on HSBC France its prospects, financial condition and results of operations. The level of any material adverse effect will depend of the number of borrowers involved, the size of the exposures and the level of any inaccuracy of our estimations.

Managing risks

The risk profile of HSBC France is underpinned by its core philosophy of maintaining a strong balance sheet, robust liquidity position and capital strength. The bank continued to have a conservative risk profile during the first half of 2019.

As a provider of banking and financial services, the bank runs risks at the core of its day-to-day activities. While the Group's strategy, risk appetite, plans and performance targets are set top-down, day-to-day responsibility for risk management is cascaded through the delegation of individual accountability, with reporting and escalation are facilitated through risk governance structures. Policies, procedures and limits are defined to ensure activities remain within an understood and appropriate level of risk. Identification, measurement, monitoring and reporting of risks are essential to inform regular and strategic decision making. This is supported by an effective system of controls to ensure compliance.

The risk management framework promotes a strong risk culture which is reinforced by HSBC Values and Global Standards and ensures that our risk profile remains conservative and aligned to our risk appetite. Further details are set out on pages 72 to 141 of the *Annual Report and Accounts 2018*.

There have been no material changes to our policies and practices regarding risk management and governance in the first half of 2019.

Top and emerging risks

Top and emerging risks are those that may impact on the financial results, reputation or business model of the bank. If these risks were to occur, they could have a material effect on the group.

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

In addition, on a forward-looking basis, HSBC France aims to identify, monitor and, where possible, measure and mitigate large scale events or sets of circumstances that may have the potential to have a material impact on its financial results or reputation and the sustainability of its long-term business model. These events, giving rise to additional principal banking risks noted above, are captured together as the top and emerging risks.

These have been reviewed during the first half of 2019. New Top and emerging risks were created for Outsourcing risk and Benchmark risk and Macroeconomic and Geopolititical risk has been split to form two separate risks. Lastly People Risk was deleted as a Top and emerging risk.

Further details are set out in the risk overview table.

Risk		Mitigants
Externally driven		
Macro economic risks	▲	Over the last quarters, the global economic activity has been slowing down further, notably in China, in the US and in the eurozone. Trade tensions have been weighing on business sentiment, while external trade suffered from less buoyant economies. Although monetary policies remain broadly accommodative and could even become more expansionary in some regions, risks to the economic outlook are tilted to the downside. Better-oriented labour markets and a subdued inflation may continue to support purchasing power in many advanced economies, but higher levels of private indebtedness and limited room for public finances to act represent headwinds looking ahead.
Geopolitical risks	▲	We continually assess the impact of geopolitical events on our businesses and exposures, and take steps to mitigate them, where required, to help ensure we remain within our risk appetite. We have also strengthened physical security at our premises where the risk of terrorism is heightened.
Competition risk	▶	The banking industry is beginning to find itself confronted in some of its traditional banking products and services with the arrival of mobile banks, GAFAs and new non-banking entrants ('Fintechs', 'Insurtech', 'Supply Chain Specialists', etc.) which have superior, innovative and customer centric technologies. This challenge is made tougher by several regulations and market evolutions, both in the payment (PSD2, Instant Payment, NFC payment, blockchain) and data management landscape (GDPR – Global Data Protection Regulation –, Open Banking, AI). HSBC Group is fully aware of these technology innovations and maintains high level contacts with the 'Fintech' 'ecosystem'. Work on the PSD2 programme is ongoing in France and in Europe to ensure the bank will comply with this new regulation and will be able to identify new business opportunities. Besides, the GDPR requirements have been adopted on time in HSBC France. 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. HSBC France Labs (GTRF Lab, iLab) are also looking at strategic solutions and technologies to accelerate readiness.
Benchmark replacement risk	▲	The main IBOR (interbank offered rates) interest rate indices, currently computed with benchmark mechanisms, are being progressively replaced by Risk Free Rates indices. This change generates financial, conduct, operational, legal, accounting and systemic risks. It is managed at Group level by the IBOR transition program. At short term, from 2 October 2019, the EONIA will no longer be computed as a benchmark and published at D 7 pm, but will become a tracker of the new RFR €STR, computed as €STR + fixed spread and published at D+1 9:15 am. To be noted that EONIA's publication will stop starting 3rd January 2022 and will be replaced by €STR that will be published at D+1 8:00am. This requires adaptation of all processes involving Eonia and communication to all concerned clients, in short timelines.
Information Security Cyber Crime and Fraud Risks	▶	HSBC France is actively participating in intelligence sharing and continues to improve its governance and control framework to protect its information and technical infrastructure against ever increasingly sophisticated cyber threats such as payment systems compromises and Ransomware attacks.
Tax Transparency / Transfer Pricing	▶	HSBC France continues to implement the Tax Transparency. The bank has implemented CRS to exchange information with other adopting countries and is in the process of implementing DAC (Directive on Administrative Cooperation) 6. The Transfer Pricing policy is also currently being reviewed to include the branches.
Regulatory Compliance including conduct	▶	HSBC France continues to engage with its key stakeholders to ensure compliance in the implementation of the ongoing projects of significance. These include the recent EU regulatory developments, structural changes to mitigate the consequences of the UK's departure from the EU (including outsourcing arrangements), French customer & whistleblower protection rules and the market abuse framework.
Financial Crime Compliance	▶	In the first half of 2019, new milestones have been reached to support Anti-Money Laundering, Sanctions and Anti-Bribery & Corruption (AFA recommendations) control framework. HSBC France TM framework and timely and effective Customer profiles reviews remain a priority.
Climate Change	▶	HSBC is developing risk policies and procedures consistent with Group Risk Appetite to (1) protect the Group from climate change risk and (2) enable business supporting a transition to a low carbon economy. It is developing processes to measure and report exposure (defined as Cat A limits/outstanding) to (1) carbon intensive and (2) low carbon business activities. Transition risk is measured and monitored by the client facing teams and the credit teams, and exposure to Transition Risk is reported to the RMM including regular review of sensitive sectors/clients. This process will help to align the Group's portfolio to a decarbonation scenario.

Risk		Mitigants
Internally driven		
IT & Operational Risk Resilence risk	▶	HSBC France has accelerated its evergreening programme, including the evolution of its GBM servers, and has reinforced its IT access control framework and processes. Also, ongoing security improvement programmes are being managed to enhance the bank's protection against ever-evolving cybercrime threats.
Outsourcing risk	▶	We continue to strengthen essential governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of third parties with which we do business. This includes control monitoring and assurance throughout the third-party life cycle.
Execution risks	▶	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 most important projects are followed at the highest possible governance forums. These projects are reviewed quarterly with the Exco of the bank in a Project Oversight Committee.
Model risk	▲	Model risk is heightened by evolving and increasingly demanding regulatory standards, as well as by the introduction of new internal models, in particular for the regulatory capital for counterparty credit risk ('IMM'). The European Central Bank is regularly performing reviews on quality and usage of various models in HSBC France, and already issued a number of findings. HSBC France is going through the necessary actions to mitigate the issues by improving existing models and developing new ones. HSBC France's specific governance on model risk is being strengthened. Besides, HSBC France continues to engage with the ECB and to participate in consultation papers and industry working groups on regulatory topics.
Data Management	▶	HSBC France continues to strengthen data controls to ensure data risks are appropriately managed. HSBC France data strategy is aligned to that of HSBC Group and leverage Group data capabilities. The priorities are to further increase the scope of data under governance by end of 2019, to improve operational controls on data privacy and data protection requirements. HSBC France is adapting its data organisation and governance following the integration of new entities into the HBFR structure. Data risks remain stable at the same levels as at 31 December 2018. Concentration of risks remains on data privacy for which funded programmes are in place to address the identified risks.

▲ Risk has heightened during first half of 2019
▶ Risk remains at the same level during the first semester 2019
▼ Risk has decreased during first half of 2019

Areas of special interest

The UK's withdrawal agreement from the European Union

The period of uncertainty and market volatility 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 time-frame and the complex negotiations involved, HSBC is working with customers to help them adapt to this new environment and plan for what might follow.

Mitigant actions

To ensure continuity of service, independent of the outcome of negotiations, our contingency plan is based on the assumption of a scenario whereby the UK exits the EU without the existing passporting or regulatory equivalence framework that supports cross-border business.

Our programme to manage the impact of the UK leaving the EU was set up in 2017 and has now been broadly completed. Our focus has been on four main components: legal entity restructuring; product offering; customer migrations; and employees as described in section 'UK withdrawal from the European Union'.

Key developments and risk profile

Credit risk profile

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

There were no material changes to the policies and practices for the management of credit risk in the first half of 2019.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' of the *Annual Report and Accounts 2018*.

Credit risk in the first half of 2019

Cost of credit risk increased in the first half of 2019 following increased provisioning in Global Banking & Markets.

Summary of credit risk

The following tables analyse loans by industry sector which represent the concentration of exposures in which how credit risks are managed.

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of Expected Credit Loss ('ECL') is complex and involves the use of significant judgement and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of IFRS 9.

Methodology

HSBC has adopted the use of three economic scenarios representative of HSBC's view of forecast economic conditions, sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome', (the Central scenario) and two, less likely, 'Outer' scenarios on either sides of the Central one, referred to as an Upside and a Downside scenario respectively. Each outer scenario is consistent with a probability of 10 per cent while the Central scenario is assigned the remaining 80 per cent, according to the decision of HSBC's senior management. This weighting scheme is a global choice, deemed appropriate for the computation of unbiased ECL in most economic environments. Setting key scenario assumptions using the average of forecasts of external economists helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

For the Central scenario, HSBC sets key assumptions such as GDP growth, inflation, unemployment and policy rates using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies or market prices. Upside and downside scenarios are designed to be cyclical in that GDP growth, inflation and unemployment usually revert back to the Central one after the first three years for major economies.

We apply the following to generate the three economic scenarios:

- Economic Risk Assessment – we develop a shortlist of the downside and upside economic and political risks most relevant to HSBC and the IFRS 9 measurement objective, such as local and global economic/political risks that together impact on economies that materially matter to HSBC, namely UK, the Eurozone, Hong Kong, China and US.
- Scenario Generation – For the Central scenario, we obtain a predefined set of economic forecasts from the average forecast taken from the Consensus Forecast survey of professional forecasters. Paths for the Outer scenarios are benchmarked to the Central scenario and reflect the economic risk assessment. We assign each path probabilities to reflect the likelihood of occurrence of that scenario, based on management judgement and data analysis of past recessions (transitions in and out of recession).
- Variable Enrichment – We expand each scenario through enrichment of variables. This includes the production of 400+ variables that are required by the businesses.

At each review of the economic scenarios, HSBC France is involved in order to provide local insights into the development of the globally consistent economic scenarios. In addition, HSBC recognises that the Consensus Economic Scenario approach using three scenarios may be insufficient in certain economic environments. As a consequence, additional analysis may be requested at management's discretion, and management overlays may be required if the ECL outcome calculated using the three scenarios does not fully reflect the high degree of uncertainty in estimating the distribution of ECL in certain circumstances.

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

	30 Jun 2019		31 Dec 2018	
	Gross carrying/ nominal amount	**Allowance/ provision for ECL[1]**	Gross carrying/ nominal amount	Allowance/provision for ECL[1]
	€m	**€m**	€m	€m
Loans and advances to customers at amortised cost	**57,030**	**(715)**	47,591	(594)
– personal[2]	**21,074**	**(193)**	20,594	(206)
– corporate and commercial	**30,615**	**(495)**	24,932	(387)
– non-bank financial institutions	**5,341**	**(27)**	2,065	(1)
Loans and advances to banks at amortised cost	**7,457**	**—**	6,197	—
Other financial assets measured at amortised costs	**67,723**	**—**	49,961	(1)
– cash and balances at central banks	**15,233**	**—**	9,019	(1)
– items in the course of collection from other banks	**995**	**—**	437	—
– reverse repurchase agreements – non-trading	**34,441**	**—**	32,835	—
– financial investment[3]	**6**	**—**	6	—
– prepayments, accrued income and other assets	**17,048**	**—**	7,664	—
Total gross carrying amount on balance sheet	**132,210**	**(715)**	103,749	(595)
Loans and other credit related commitments[4]	**113,962**	**(12)**	85,838	(12)
– personal	**1,411**	**(1)**	1,180	—
– corporate and commercial	**32,282**	**(9)**	25,902	(12)
– financial	**80,269**	**(2)**	58,756	—
Financial guarantee and similar contracts[5]	**1,129**	**(3)**	1,086	(2)
– personal	**33**	**—**	36	—
– corporate and commercial	**568**	**(3)**	982	(2)
– financial	**528**	**—**	68	—
Total nominal amount off-balance sheet[6]	**115,091**	**(15)**	86,924	(14)
Total nominal amount on-balance sheet and off-balance sheet	**247,301**	**(730)**	190,673	(609)

	Fair value	**Memorandum allowance for ECL**	Fair value	Allowance for ECL
	€m	**€m**	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**17,296**	**(6)**	16,485	(6)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Of which EUR 11,998 million guaranteed by Credit Logement as at 30 June 2019 (31 December 2018: EUR 11,347 million).*
3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 42 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
4 *Excludes revocable loans and other commitments to which the impairments requirements in IFRS 9 are not applied.*
5 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 is not applied.*
6 *Represents the maximum amount at risk should the contracts be fully drawn upon the clients default.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 30 June 2019

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost	52,684	3,187	1,103	56	57,030	(45)	(48)	(581)	(41)	(715)	0.1	1.5	52.7	73.2	1.3
– personal[3]	19,562	1,040	472	–	21,074	(4)	(23)	(166)	–	(193)	–	2.2	35.2	–	0.9
– corporate and commercial	27,965	1,987	607	56	30,615	(37)	(24)	(393)	(41)	(495)	0.1	1.2	64.7	73.2	1.6
– non-bank financial institutions	5,157	160	24	–	5,341	(4)	(1)	(22)	–	(27)	0.1	0.6	91.7	–	0.5
Loans and advances to banks at amortised cost	7,444	13	–	–	7,457	–	–	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	67,714	6	2	1	67,723	–	–	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[4]	112,327	1,463	172	–	113,962	(5)	(3)	(4)	–	(12)	–	0.2	2.3	–	–
– personal	1,367	42	2	–	1,411	–	(1)	–	–	(1)	–	2.4	–	–	0.1
– corporate and commercial	31,006	1,106	170	–	32,282	(4)	(1)	(4)	–	(9)	–	0.1	2.4	–	–
– financial	79,954	315	–	–	80,269	(1)	(1)	–	–	(2)	–	0.3	–	–	–
Financial guarantee and similar contracts[5]	1,057	65	4	3	1,129	(2)	(1)	–	–	(3)	0.2	1.5	–	–	0.3
– personal	32	–	1	–	33	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	497	65	3	3	568	(2)	(1)	–	–	(3)	0.4	1.5	–	–	0.5
– financial	528	–	–	–	528	–	–	–	–	–	–	–	–	–	–
At 30 Jun 2019	**241,226**	**4,734**	**1,281**	**60**	**247,301**	**(52)**	**(52)**	**(585)**	**(41)**	**(730)**	**–**	**1.1**	**45.7**	**68.3**	**0.3**

1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
2 Purchased or originated credit-impaired ('POCI').
3 Of which EUR 11,998 million guaranteed by Crédit Logement as at 30 June 2019.
4 Excludes revocable loans and other commitments to which the impairments requirements in IFRS 9 are not applied.
5 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

Stage 2 days past due analysis at 30 June 2019

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	3,187	*98*	*85*	(48)	(1)	(2)	1.5	1.0	2.4
– personal	1,040	*61*	*47*	(23)	(1)	(1)	2.2	1.6	2.1
– corporate and commercial	1,987	*37*	*38*	(24)	–	(1)	1.2	–	2.6
– non-bank financial institutions	160	–	–	(1)	–	–	0.6	–	–
Loans and advances to banks at amortised cost	13	*4*	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	6	*1*	*1*	–	–	–	–	–	–

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2018

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost	43,629	2,972	975	15	47,591	(28)	(44)	(519)	(3)	(594)	0.1	1.5	53.2	20.0	1.2
– personal[3]	18,960	1,156	478	—	20,594	(5)	(24)	(177)	—	(206)	—	2.1	37.0	—	1.0
– corporate and commercial	22,604	1,816	497	15	24,932	(22)	(20)	(342)	(3)	(387)	0.1	1.1	68.8	20.0	1.6
– non-bank financial institutions	2,065	—	—	—	2,065	(1)	—	—	—	(1)	—	—	—	—	—
Loans and advances to banks at amortised cost	6,190	7	—	—	6,197	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	49,931	5	1	—	49,937	(1)	—	—	—	(1)	—	—	—	—	—
Loan and other credit-related commitments[4]	84,581	1,216	41	—	85,838	(2)	(2)	(8)	—	(12)	—	0.2	19.5	—	—
– personal	1,143	34	3	—	1,180	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	24,708	1,156	38	—	25,902	(2)	(2)	(8)	—	(12)	—	0.2	21.1	—	—
– financial	58,730	26	—	—	58,756	—	—	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts[5]	1,007	74	2	3	1,086	(1)	(1)	—	—	(2)	0.1	1.4	—	—	0.2
– personal	35	—	1	—	36	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	904	74	1	3	982	(1)	(1)	—	—	(2)	0.1	1.4	—	—	0.2
– financial	68	—	—	—	68	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2018	185,338	4,274	1,019	18	190,649	(32)	(47)	(527)	(3)	(609)	—	1.1	51.7	16.7	0.3

1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
2 Purchased or originated credit-impaired ('POCI').
3 Of which EUR 11,347 million guaranteed by Crédit Logement as at 31 December 2018.
4 Excludes revocable loans and other commitments to which the impairments requirements in IFRS 9 are not applied.
5 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due and are transferred from stage 1 to stage 2. The disclosure below presents the ageing of stage 2 financial assets by those less than 30 and greater than 30 days past due and therefore presents those financial assets classified as stage 2 due to ageing (30 days past due) and those identified at an earlier stage (less than 30 days past due). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 days past due analysis at 31 December 2018

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	2,972	*97*	*121*	(44)	*(2)*	*(4)*	1.5	*2.1*	*3.3*
– personal	1,156	*67*	*46*	(24)	*(2)*	*(2)*	2.1	*3.0*	*4.3*
– corporate and commercial	1,816	*30*	*75*	(20)	—	*(2)*	1.1	—	*2.7*
– non-bank financial institutions	—	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	7	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	5	—	—	—	—	—	—	—	—

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

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2019	**80,597**	**(31)**	**4,270**	**(47)**	**1,016**	**(527)**	**19**	**(3)**	**85,902**	**(608)**
Transfers of financial instruments	(32)	(14)	(76)	16	108	(2)	–	–	–	–
– transfers from Stage 1 to Stage 2	(2,151)	2	2,151	(2)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	2,119	(16)	(2,119)	16	–	–	–	–	–	–
– transfers to Stage 3	–	–	(111)	3	111	(3)	–	–	–	–
– transfers from Stage 3	–	–	3	(1)	(3)	1	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	10	–	(5)	–	–	–	–	–	5
Changes due to modifications not derecognised	–	–	–	–	–	–	–	–	–	–
Changes to risk parameters (model inputs)	(2,538)	7	(387)	(4)	154	(99)	(26)	–	(2,797)	(96)
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
Net new and further lending / (repayments)	11,110	(9)	(404)	3	(97)	42	1	(1)	10,610	35
Assets written off	–	–	–	–	(48)	48	(47)	47	(95)	95
Credit related modifications that resulted in derecognition	–	–	–	–	(4)	2	–	–	(4)	2
Foreign exchange	30	–	4	–	–	–	–	–	34	–
Others	5,486	(4)	503	(2)	12	(1)	(1)	(2)	6,000	(9)
Transfers-in[2]	7,555	(11)	818	(13)	138	(48)	113	(82)	8,624	(154)
At 30 June 2019	**102,208**	**(52)**	**4,728**	**(52)**	**1,279**	**(585)**	**59**	**(41)**	**108,274**	**(730)**
ECL release/(charge) for the period		8		(6)		(57)		(1)		(56)
Recoveries		–		–		2		–		2
Modification gains or (losses) on contractual cash flows that did not result in derecognition		–		–		–		–		–
Others		–		–		–		–		–
Total ECL release/(charge) for the period	–	8	–	(6)	–	(55)	–	(1)	–	(54)

	At 30 June 2019		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	**108,274**	**(730)**	**(54)**
Other financial assets measured at amortised cost	67,723	–	–
Non-trading reverse purchase agreement commitments	71,304	–	–
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	247,301	(730)	(54)
Debt instruments measured at FVOCI	17,296	(6)	–
Total allowance for ECL/total income statement ECL charge for the period	264,597	(736)	(54)

1 *Excludes performance guarantee contracts, revocable loans and other commitments to which the impairment requirements in IFRS 9 are not applied.*
2 *Transfer-in includes amounts related to the acquisition of seven branches: Madrid branch, Milan branch, Ireland branch, Netherlands branch, Belgium branch, Prague branch with effect from 1 February 2019 and Luxembourg branch from 1 March 2019.*

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2018	73,626	(38)	3,376	(46)	1,071	(504)	—	—	78,073	(588)
Transfers of financial instruments	(457)	(34)	271	40	186	(6)	—	—	—	—
– transfers from Stage 1 to Stage 2	(3,973)	5	3,973	(5)	—	—	—	—	—	—
– transfers from Stage 2 to Stage 1	3,514	(39)	(3,514)	39	—	—	—	—	—	—
– transfers to Stage 3	—	—	(193)	7	193	(7)	—	—	—	—
– transfers from Stage 3	2	—	5	(1)	(7)	1	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	26	—	(15)	—	(1)	—	—	—	10
Changes due to modifications not derecognised	—	—	—	—	—	—	—	—	—	—
Changes to risk parameters (model inputs)	(6,699)	(9)	661	(22)	(23)	(60)	(3)	16	(6,064)	(75)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Net new and further lending/ (repayments)	13,864	(14)	(1,524)	34	(186)	53	(19)	1	12,135	74
Assets written off	—	—	—	—	(87)	87	—	—	(87)	87
Credit related modifications that resulted in derecognition	—	—	—	—	(11)	3	—	—	(11)	3
Foreign exchange	20	—	—	—	—	—	—	—	20	—
Others	(1,503)	44	1,110	(28)	(95)	(3)	29	(19)	(459)	(6)
Transfer-in[2]	1,746	(6)	376	(10)	161	(96)	12	(1)	2,295	(113)
At 31 Dec 2018	80,597	(31)	4,270	(47)	1,016	(527)	19	(3)	85,902	(608)
ECL release/(charge) for the period		3		(3)		(5)		17		12
Recoveries		—		—		3		—		3
Modification gains or (losses) on contractual cash flows that did not result in derecognition		—		—		—		—		—
Others		(7)		—		2		—		(5)
Total ECL release/(charge) for the period	—	(4)	—	(3)	—	—	—	17	—	10

	At 31 Dec 2018		
	Gross carrying/ nominal amount	Allowance for ECL	ECL release/ (charge)
	€m	€m	€m
As above	85,902	(608)	10
Other financial assets measured at amortised cost	49,961	(1)	—
Non-trading reverse purchase agreement commitments	54,810	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	190,673	(609)	10
Debt instruments measured at FVOCI	16,485	(6)	—
Total allowance for ECL/total income statement ECL charge for the period	207,158	(615)	10

1 *Excludes performance guarantee contracts, revocable loans and other commitments to which the impairment requirements in IFRS 9 are not applied.*
2 *Transfer-in includes amounts related to transfer of HSBC Group activities in Greece to the Greek branch of HSBC France on 1 January 2018 and related to acquisition of two subsidiaries in Ireland & Poland with effect from 1 August 2018.*

Liquidity and funding risks

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable (and therefore used to fund assets) proves not to be sustainable over time. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity Coverage Ratio ('LCR')

The LCR metric was designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has an adequate stock of unencumbered high-quality liquid assets ('HQLA') that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar days liquidity stress scenario.

HSBC France's LCR computed in respect of the EU Delegated act as at the end of June 2019 was 123 per cent.

Net stable funding ratio ('NSFR')

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

HSBC calculates the NSFR in line with the relevant text from the Basel Committee of Banking Supervision ('BCBS 295'), pending its implementation in Europe. Therefore, the HSBC NSFR may not be directly comparable to the ratios of other institutions.

HSBC France's NSFR ratio as at 30 June 2019 was 111 per cent.

Market risks

Market risks in the first half of 2019

Eurozone yields kept decreasing during the first half of 2019, French OAT on ten years maturity reached negative levels.

Commercial tensions between the United States and China associated with a progressive slowdown of global growth prompted the US Federal Reserve and the European Central Bank to adopt a dovish tone.

The Federal Open Market Committee is expected to cut the Fed Funds target rates by the end of year. European Central Bank indicated being open to additional monetary stimuli.

The UK's departure from the EU has been delayed until at least end of October and Theresa May's resignation brought even more uncertainty on future outcome.

Italian debt remained volatile with pretty high yields compared to the other Eurozone countries as political tension with European commission around budget is still concerning financial markets

Stock Markets had some back and forth moves but overall backed by monetary policy's expectations.

Exposures have been in line with the HSBC France's market risk appetite.

Value at Risk ('VaR')

HSBC France has been granted by the European Central Bank the authorisation to use new internal model approaches for own fund requirements with consequence to facilitate the on boarding of credit asset class activities.

Credit VaR has been integrated in the scope of Regulatory VaR.

Trading portfolios

Value at Risk of the trading portfolio

Trading VaR predominantly resides within Global Markets. It remained stable over the year with some fluctuations in line with the Market Making activities. Average and maximum figures have decreased compared to the previous year following the introduction in May 2018 of the new model for the Credit VaR.

Total trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2019	**0.26**	**4.13**	**–**	**1.03**	**(1.00)**	**4.42**
Average	**0.28**	**5.47**	**–**	**1.28**	**(1.52)**	**5.51**
Maximum	**0.38**	**8.28**	**–**	**1.74**	**(2.30)**	**8.42**
Balance at 30 Jun 2018	0.09	6.20	–	1.21	(1.59)	5.91
Average	0.11	5.97	–	6.00	(4.17)	7.92
Maximum	0.64	10.16	–	15.69	(10.25)	14.81

Non-trading portfolios

Value at Risk of the non-trading portfolio

Non-trading VaR is also stable, the behaviour over the year is driven by the BSM *(Balance Sheet Management)* Liquid Asset Buffer management. Similar to the trading portfolios, average and maximum figures have decreased compared to the previous year following the introduction in May 2018 of the new model for the Credit VaR.

Total non-trading VaR by risk type

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Jun 2019	**–**	**2.85**	**–**	**2.89**	**(1.91)**	**3.84**
Average	**–**	**2.92**	**–**	**2.32**	**(1.62)**	**3.62**
Maximum	**–**	**4.88**	**–**	**3.14**	**(2.64)**	**5.49**
Balance at 30 Jun 2018	–	2.35	–	2.57	(1.33)	3.59
Average	–	2.48	–	7.85	(1.49)	8.85
Maximum	–	3.92	–	23.45	(4.33)	24.60

Interest-rate risks in the banking book

Overview

Interest rate risk in the banking book is the risk of variability in results caused by mismatches in interest rates, maturities and nature between assets and liabilities in the banking book. This risk arises in non-trading portfolios.

Governance

At HSBC France, ALCM *(Asset, Liability and Capital Management)* department monitors and controls interest rate risk in the banking book as well as reviewing and challenging the business prior to the release of new products and proposed behavioural assumptions used for hedging activities. ALCM are also responsible for maintaining and updating the transfer pricing framework, informing ALCO of the overall banking book interest rate risk exposure and managing the balance sheet in conjunction with BSM.

BSM manages the banking book interest rate positions transferred to it within Markets Risk limits. 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. Any interest rate risk which BSM cannot economically hedge is not transferred and remain within ALCO books in the Corporate Centre.

Measurement of interest rate risk in the Banking Book

Interest rates risk in the banking book is measured mainly through nominal gap, sensitivity of interest rate income and sensitivity of economic value of equity. Economic value of equity calculation methodology has been updated in the first half of 2019 to align with EBA regulatory requirements.

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

Capital

Overview

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

Throughout the six months to 30 June 2019, the bank complied with the ECB's regulatory capital adequacy requirements.

HSBC France's approach to manage its capital position has been to ensure the bank exceeds current regulatory requirements and is well placed to meet expected future capital requirements.

During the first half of 2019, in line with its capital plan, HSBC France performed the following CET1 increases: in January 2019, EUR 949.6 million, in February, EUR 336.3 million, in May, EUR 3.6 million and in June, EUR 299.4 million. HSBC France also issued Tier 2 instruments under the form of intra-group loans with HSBC Bank plc: in January, EUR 400 million and in June, EUR 100 million. These operations were meant to achieve a target capital structure, enabling the bank to diversify its capital instruments and to enhance its return on invested capital.

A summary of HSBC France's policies and practices regarding capital management, measurement and allocation is provided on page 142 of the *Annual Report and Accounts 2018*.

Regulatory developments

The Basel Committee ('Basel')

In December 2017, Basel published the Basel III post-financial crisis reforms. The final package includes:

- widespread changes to the risk weights under the standardised approach to credit risk;
- changes limiting the scope of application of the internal ratings based ('IRB') approach to credit risk, together with changes to the IRB methodology;
- the replacement of the operational risk approaches with a single methodology;
- an amended set of rules for the credit valuation adjustment ('CVA') capital framework;
- an aggregate output capital floor that ensures that banks' total RWAs are no lower than 72.5 per cent of those generated by the standardised approaches; and
- changes to the exposure measure for the leverage ratio.

Following a recalibration, Basel published the final changes to the market risk RWA regime, the Fundamental Review of the Trading Book ('FRTB') in January 2019. The new regime contains a more clearly defined trading book boundary, the introduction of an internal models approach based upon expected shortfall models, capital requirements for risk factors which cannot be modelled, and a more risk-sensitive standardised approach that can serve as a fall-back for the internal models method.

In June 2019, Basel published a revised treatment of client cleared derivatives for the purposes of the leverage ratio. This will permit both cash and non-cash initial and variation margin to offset derivative exposure in the leverage ratio. At the same time, Basel published revised leverage ratio disclosure requirements that will require banks to disclose their leverage ratios based on quarter-end and on daily average values for securities financing transactions ('SFT').

Basel has announced that the package will be implemented on 1 January 2022, with a five-year transitional provision for the output floor, commencing at a rate of 50 per cent. The final standards will need to be transposed into the relevant local law before coming into effect. Given that the package contains a significant number of national discretions, the final outcome is uncertain both in substance and timing.

The Capital Requirements Regulation Amendments

In June 2019, the European Union ('EU') enacted the final rules revising the Capital Requirements Regulation, known as the CRR2. This is the first tranche of changes to the EU's legislation to reflect the Basel III Reforms and includes the changes to the future market risk rules under the FRTB (reporting requirements at this stage), revisions to the standardised approach for measuring counterparty risk ('SA-CCR') and the new leverage ratio rules.

The CRR2 rules will follow a phased implementation with significant elements entering into force in 2021, for some of them in advance of Basel's timeline. The EU's timetable for the FRTB will be finalised once further legislation to reflect Basel's January 2019 amendments has been enacted.

The CRR2 also represents the EU's implementation of the Financial Stability Board's ('FSB') requirements for Total Loss Absorbing Capacity ('TLAC'), known in Europe as the Minimum Requirements for Own Funds and Eligible Liabilities ('MREL'). Furthermore, it also includes changes to the own funds regime. These rules are already in force.

In January 2019, the Single Resolution Board ('SRB') published an update to its MREL policy laying out its expectations for setting MREL requirements at an individual firm level. The SRB will be issuing internal MREL targets to its respective firms in due course. The SRB policy was further updated in June to inform institutions of the TLAC requirements contained within CRR2. Another SRB policy update is expected by year-end or early next year ahead of the entry into force of revisions to the Bank Recovery and Resolution Directive ('BRRD2').

EU's implementation of further Basel III Reforms

In July 2019, the European Banking Authority ('EBA') issued its report on the implementation of a second tranche of changes to the EU legislation to reflect the remaining Basel III Reforms ('CRR3'). This included recommendations in relation to credit risk, operational risk and the output floor. A further report with recommendations on the reforms to the CVA framework and the FRTB is expected later this year.

The EBA's report is the first stage of the implementation process in the EU. The European Commission will consult upon its view of the policy choices in due course, and is expected to produce draft text in 2020. The package will then be subject to negotiation with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

The UK's withdrawal from the EU

The deadline for the UK's departure from the EU has been postponed to 31 October 2019. In the event that the UK leaves the EU without an agreement, the UK will be treated as a non-EU third country and no longer be bound by its laws. It is currently unclear if the EU will recognise the UK as applying equivalent regulatory standards.

To limit the risk of disruption associated with no-deal on the UK's departure from the EU, the European Securities and Markets Authority ('ESMA') has issued a public statement in March 2019 confirming that the biggest credit rating agencies have already taken steps to ensure that their ratings will be endorsed both in the UK and the EU in case of no-deal on the UK's departure from the EU. EMSA has also issued new recognition decisions in April 2019 to ensure that three central counterparties ('CCPs') established in the UK (LCH Limited, ICE Clear Europe Limited and LME Clear Limited) will be recognised in the event of no-deal on the UK's departure from the EU.

Other developments

In April 2019, the new EU rules for a prudential backstop for non-performing loans ('NPLs') entered into force. They will result in a deduction from CET1 capital when a minimum impairment coverage requirement is not met. The regime only applies to loans originated after the implementation date. Banks under the supervision of the European Central Bank ('ECB') also have to take into account the existing addendum to the ECB guidance on NPLs laying out, for NPLs classified as such starting 1 April 2018, the ECB's expectation on prudential provisioning published on March 2018, as well as specific ECB requirements for the stock of NPLs as of 31 March 2018.

In July 2019, the EBA published a report marking the end of its 'IRB Repair' review, with the exception of the credit risk mitigation guidelines which remain subject to completion. This followed the publication in March 2019 of final guidelines on the estimation of loss given default ('LGD') appropriate for conditions of an economic downturn. The LGD guidelines are intended to supplement the final draft technical standard that specified the nature, severity and duration of an economic downturn, which was published in November 2018. The report sets out the next steps for implementation, confirming that the LGD guidelines will apply, at the latest, by the end of 2023.

The ECB has published on July 2019 the final version of its guide to internal models covering credit, market and counterparty credit risks following the end of a public consultation on November 2018. This is in addition to the ECB general topics guide (i.e. not risk type-specific) published on November 2018.

In July 2018, the High Council for Financial Stability ('HCSF') decided to set a Countercyclical Capital Buffer of 0.25 per cent applicable to French exposures as of July 2019. In April 2019, the HCSF decided to increase this rate to 0.50 per cent, applicable as of April 2020.

Key capital numbers

	At	
	30 Jun 2019	31 Dec 2018
	€m	€m
Capital resources		
CET1	**6,364**	4,747
Tier 1 Capital	**6,864**	5,247
Total Capital	**7,870**	5,708
Risk-Weighted Assets		
Credit risk	**35,145**	25,972
Counterparty Credit Risk	**3,776**	3,627
Market Risk	**5,367**	3,455
Operational Risk	**3,194**	3,194
Total Risk-Weighted Assets	**47,482**	36,248
Capital Ratios – transitional (%)		
Common equity tier 1	**N/A**	N/A
Total tier 1	**N/A**	N/A
Total capital	**N/A**	N/A
Capital Ratios – fully-loaded (%)		
Common equity tier 1	**13.4%**	13.1%
Total tier 1	**14.5%**	14.5%
Total capital	**16.6%**	15.7%

Regulatory balance sheet

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 on the Financial Statements, differs from that used for regulatory purposes. The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation.

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at cost and deducted from CET1 (subject to thresholds).

Reconciliation of balance sheet – financial accounting to regulatory scope of consolidation

	Accounting balance sheet	De-consolidation of insurance/ other entities	Regulatory balance sheet
	€m	€m	€m
Assets			
Cash and balances at central banks	15,233	–	15,233
Items in the course of collection from other banks	995	–	995
Trading assets	20,818	–	20,818
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	11,741	(10,731)	1,010
Financial assets designated at fair value	–	–	–
Derivatives	51,747	(42)	51,705
Loans and advances to banks	7,457	(63)	7,394
Loans and advances to customers	56,315	–	56,315
– *of which:*			
impairment allowances on IRB portfolios	*(497)*		*(497)*
impairment allowances on standardised portfolios	*(201)*		*(201)*
Reverse repurchase agreements – non-trading	34,441	–	34,441
Financial investments	17,313	(12,015)	5,298
Assets held for sale	3	–	3
Capital invested in insurance and other entities	–	–	–
Prepayments, accrued income and other assets	18,313	(576)	17,737
– *of which: retirement benefit assets*	–	–	–
Current tax assets	133	(13)	120
Interests in associates and joint ventures	2	–	2
Goodwill and intangible assets	1,035	(554)	481
Deferred tax assets	179	–	179
Total assets at 30 Jun 2019	235,725	(23,994)	211,731
Liabilities and equity			
Deposits by banks	13,378	(3)	13,375
Customer accounts	54,940	–	54,940
Repurchase agreements – non-trading	19,297	–	19,297
Items in the course of transmission to other banks	737	–	737
Trading liabilities	25,808	–	25,808
Financial liabilities designated at fair value	17,022	893	17,915
Derivatives	50,373	(6)	50,367
Debt securities in issue	3,550	–	3,550
Accruals, deferred income and other liabilities	17,725	(1,051)	16,674
– *of which: retirement benefit liabilities*	*189*	*(2)*	*187*
Current tax liabilities	98	(14)	84
Liabilities under insurance contracts	23,009	(23,009)	–
Provisions	98	(1)	97
– *of which:*			
credit-related provisions on IRB portfolios	*(46)*	–	*(46)*
credit-related provisions on standardised portfolios	*(17)*	–	*(17)*
Deferred tax liabilities	170	(163)	7
Subordinated liabilities	1,376	–	1,376
– *of which:*			
preferred securities included in tier 1 capital	–	–	–
perpetual subordinated debt included in tier 2 capital	*16*	–	*16*
term subordinated debt included in tier 2 capital	*1,360*	–	*1,360*
Total liabilities at 30 Jun 2019	227,581	(23,354)	204,227
Called up share capital	475	–	475
Share premium account	1,955	–	1,955
Other equity instruments	500	–	500
Other reserves	1,650	(36)	1,614
Retained earnings	3,535	(604)	2,931
Total shareholders' equity	8,115	(640)	7,475
Non-controlling interests	29	–	29
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*	–	–	–
Total equity at 30 Jun 2019	8,144	(640)	7,504
Total liabilities and equity at 30 Jun 2019	235,725	(23,994)	211,731

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

	Accounting balance sheet	De-consolidation of insurance/ other entities	Regulatory balance sheet
	€m	€m	€m
Assets			
Cash and balances at central banks	9,018	—	9,018
Items in the course of collection from other banks	437	—	437
Trading assets	16,966	—	16,966
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	10,495	(9,717)	778
Financial assets designated at fair value	—	—	—
Derivatives	31,777	(68)	31,709
Loans and advances to banks	6,197	(210)	5,987
Loans and advances to customers	46,997	—	46,997
– *of which:*			
impairment allowances on IRB portfolios	*(461)*	—	*(461)*
impairment allowances on standardised portfolios	*(126)*	—	*(126)*
Reverse repurchase agreements – non-trading	32,835	—	32,835
Financial investments	16,502	(11,287)	5,215
Assets held for sale	—	—	—
Capital invested in insurance and other entities	30	—	30
Prepayments, accrued income and other assets	8,460	(258)	8,202
– *of which: retirement benefit assets*	—	—	—
Current tax assets	154	(37)	117
Interests in associates and joint ventures	2	—	2
Goodwill and intangible assets	920	(501)	419
Deferred tax assets	156	—	156
Total assets at 31 Dec 2018	180,946	(22,078)	158,868
Liabilities and equity			
Deposits by banks	10,828	—	10,828
Customer accounts	41,906	—	41,906
Repurchase agreements – non-trading	18,921	—	18,921
Items in the course of transmission to other banks	269	—	269
Trading liabilities	23,145	—	23,145
Financial liabilities designated at fair value	14,584	827	15,411
Derivatives	31,298	(4)	31,294
Debt securities in issue	2,472	—	2,472
Accruals, deferred income and other liabilities	8,437	(871)	7,566
– *of which: retirement benefit liabilities*	*165*	*(2)*	*163*
Current tax liabilities	61	(2)	59
Liabilities under insurance contracts	21,335	(21,335)	—
Provisions	75	(1)	74
– *of which:*			
credit-related provisions on IRB portfolios	*(32)*	—	*(32)*
credit-related provisions on standardised portfolios	—	—	—
Deferred tax liabilities	155	(150)	5
Subordinated liabilities	876	—	876
– *of which:*			
preferred securities included in tier 1 capital	—	—	—
perpetual subordinated debt included in tier 2 capital	*16*	—	*16*
term subordinated debt included in tier 2 capital	*860*	—	*860*
Total liabilities at 31 December 2018	174,362	(21,536)	152,826
Called up share capital	367	—	367
Share premium account	475	—	475
Other equity instruments	500	—	500
Other reserves	1,566	(22)	1,544
Retained earnings	3,647	(520)	3,127
Total shareholders' equity	6,555	(542)	6,013
Non-controlling interests	29	—	29
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*	—	—	—
Total equity at 31 Dec 2018	6,584	(542)	6,042
Total liabilities and equity at 31 Dec 2018	180,946	(22,078)	158,868

Own funds (not reviewed)

Ref*		At 30 Jun 2019 €m	31 Dec 2018 €m
	Common equity tier 1 (‘CET1’) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**2,430**	842
	– ordinary shares	**1,956**	475
2	Retained earnings	**3,543**	3,627
3	Accumulated other comprehensive income (and other reserves)	**1,565**	1,596
5	Transitional adjustments due to additional minority interests	**—**	—
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**37**	(32)
6	**Common equity tier 1 capital before regulatory adjustments**	**7,575**	6,032
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(192)**	(173)
8	Intangible assets (net of related deferred tax liability)	**(481)**	(420)
11	Fair value reserves related to gains or losses on cash flow hedges	**(35)**	23
12	Negative amounts resulting from the calculation of expected loss amounts	**(112)**	(107)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**61**	(57)
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(452)**	(553)
22	Amount exceeding the 15 per cent threshold	**—**	—
28	**Total regulatory adjustments to common equity tier 1**	**(1,211)**	(1 286)
29	**Common equity tier 1 capital**	**6,364**	4,747
	Additional tier 1 (‘AT1’) capital: instruments		
30	Capital instruments and the related share premium accounts	**500**	500
36	**Additional tier 1 capital before regulatory adjustments**	**500**	500
	Additional tier 1 capital: regulatory adjustments		
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 (‘T2’) capital during the transitional period	**—**	—
43	**Total regulatory adjustments to additional tier 1 capital**	**—**	—
44	**Additional tier 1 capital**	**500**	500
45	**Tier 1 capital (T1 = CET1 + AT1)**	**6,864**	5,247
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**1,376**	876
51	**Tier 2 capital before regulatory adjustments**	**1,376**	876
	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)	**(370)**	(415)
57	**Total regulatory adjustments to tier 2 capital**	**(370)**	(415)
58	**Tier 2 capital**	**1,006**	461
59	**Total capital (TC = T1 + T2)**	**7,870**	5,708
60	**Total risk-weighted assets**	**47,482**	36,248
	Capital ratios and buffers		
61	Common equity tier 1	**13,4%**	13.1%
62	Tier 1	**14,5%**	14.5%
63	Total capital	**16,6%**	15.7%
64	Institution specific buffer requirement [1]	**2.55%**	1.89%
65	– capital conservation buffer requirement	**2.5%**	1.88%
66	– countercyclical buffer requirement	**0.05%**	0.01%
68	Common equity tier 1 available to meet buffers	**8.9%**	8.6%
	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 per cent threshold and net of eligible short positions)	**155**	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 per cent threshold and net of eligible short positions)	**666**	529
75	Deferred tax assets arising from temporary differences (amount below 10 per cent threshold, net of related tax liability)	**179**	156

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

1 *The Institution specific buffer at Q4 2018 have been modified as it wrongly included the 4.5 per cent CET1 requirements.*

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 off-balance sheet exposures.

Under the current regime, institutions are only required to report and disclose the leverage ratio and its components, but there is no minimum requirement on the ratio itself.

The new banking package published in June 2019 ('CRR2') introduces a minimum leverage ratio requirement of 3 per cent applicable as of 28 June 2021.

Nonetheless, the risk of excess leverage is managed as part of HSBC France's risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

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

The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

For HSBC France, the leverage exposure measure is also calculated and presented to the Asset and Liability Management Committee every month.

Summary reconciliation of accounting assets and leverage ratio exposures

		At	
		30 Jun 2019	31 Dec 2018
Ref*		**€m**	€m
1	Total assets as per published financial statements	**235,725**	180,946
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(23,994)**	(22,078)
4	– derivative financial instruments	**(42,146)**	(24,085)
5	– securities financing transactions ('SFT')	**(3,575)**	(5,940)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**22,541**	16,235
7	– other adjustments	**(1,148)**	(890)
8	**Total leverage ratio exposure**	**187,402**	144,188

Leverage ratio common disclosure

		At	
		30 Jun 2019	31 Dec 2018
Ref*		**€m**	€m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**125,585**	94,667
2	(Asset amounts deducted in determining Tier 1 capital)	**(1,148)**	(1,233)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**124,437**	93,434
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**2,172**	1,040
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**14,366**	11,293
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**—**	—
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(7,341)**	(4,803)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**—**	—
9	Adjusted effective notional amount of written credit derivatives	**1,947**	94
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(1,585)**	—
11	**Total derivative exposures**	**9,558**	7,624
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**108,652**	87,797
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(78,494)**	(61,733)
14	Counterparty credit risk exposure for SFT assets	**708**	831
16	**Total securities financing transaction exposures**	**30,866**	26,895
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**22,541**	16,235
18	(Adjustments for conversion to credit equivalent amounts)	**—**	—
19	**Total off-balance sheet exposures**	**22,541**	16,235
	Capital and total exposures		
20	**Tier 1 capital**	**6,864**	5,247
21	**Total leverage ratio exposure**	**187,402**	144,188
22	Leverage ratio % – transitional	**N/A**	N/A
22b	Leverage ratio % – fully-loaded	**3,7%**	3.6%

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

Risk-weighted assets ('RWAs')

Risk-weighted assets summary

		At	
		30 Jun 2019	31 Dec 2018
	Footnotes	€m	€m
Credit risk	1	**35,145**	25,972
Counterparty credit risk		**3,776**	3,627
Market risk		**5,367**	3,455
Operational risk		**3,194**	3,194
Total		**47,482**	36,248

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

Credit risk – RWA by exposure class

		Exposure value	Average exposure value	RWAs	Capital required
	Footnotes	€m	€m	€m	€m
IRB advanced approach		59,173	56,866	19,368	1,550
– central governments and central banks		861	917	140	11
– institutions		1,409	1,223	478	38
– corporates	1	34,432	32,525	15,883	1,272
– total retail		22,471	22,201	2,867	229
– *of which:*		—	—	—	—
secured by mortgages on immovable property – small- and medium-sized enterprises ('SME')		*519*	*539*	*327*	*26*
secured by mortgages on immovable property non-SME		*2,949*	*3,007*	*574*	*46*
qualifying revolving retail		—	—	—	—
other SME		*1,561*	*1,663*	*506*	*40*
other non-SME		*17,442*	*16,992*	*1,460*	*117*
IRB securitisation positions		3,418	3,034	354	28
IRB equity		730	613	1,714	137
IRB foundation approach		2,458	1,370	1,891	151
– central governments and central banks		10	7	5	—
– institutions		330	166	256	20
– corporates		2,118	1,197	1,630	130
Standardised approach		40,259	34,451	11,818	946
– central governments and central banks		22,388	20,502	—	—
– regional government or local authorities		81	75	—	—
– public sector entities		1,116	1,560	5	—
– international organisations		956	988	—	—
– institutions		3,393	2,128	833	67
– corporates		8,237	5,758	6,947	556
– retail		206	211	126	10
– secured by mortgages on immovable property		933	790	365	29
– exposures in default		192	152	213	17
– items associated with particularly high risk		147	68	221	18
– claims in the form of collective investments undertakings		—	—	—	—
– equity		—	—	—	—
– other items		2,610	2,219	3,108	249
At 30 Jun 2019		**106,038**	**96,334**	**35,145**	**2,812**

1 *'Corporates' includes specialised lending exposures subject to supervisory slotting approach.*

The increase over the period results mainly from the acquisition of the activities of European branches (Note 1 – Basis of preparation and significant accounting policies – h) Significant events during the first half-year).

Credit risk – RWA by exposure class (unaudited) (continued)

	Footnotes	Exposure value	Average exposure value	RWAs	Capital required
		€m	€m	€m	€m
IRB advanced approach		55,168	53,946	18,014	1,441
– central governments and central banks		816	1,040	95	8
– institutions		1,046	1,115	310	25
– corporates		31,291	29,760	14,608	1,168
– total retail		22,015	22,031	3,001	240
– *of which:*		—	—	—	—
secured by mortgages on immovable property – small- and medium-sized enterprises ('SME')		*549*	*529*	*344*	*28*
secured by mortgages on immovable property non-SME		*3,029*	*3,056*	*627*	*50*
qualifying revolving retail		*1*	*1*	—	—
other SME		*1,584*	*1,869*	*559*	*45*
other non-SME		*16,852*	*16,576*	*1,471*	*117*
IRB securitisation positions		3,300	2,359	308	25
IRB equity		585	509	1,335	107
IRB foundation approach		374	—	368	29
– central governments and central banks		—	—	—	—
– institutions		—	—	—	—
– corporates		374	349	368	29
Standardised approach		26,550	26,586	5,947	476
– central governments and central banks		15,261	16,598	—	—
– regional government or local authorities		75	70	—	—
– public sector entities		1,468	1,360	1	—
– international organisations		990	1,226	—	—
– institutions		2,318	1,325	587	47
– corporates		3,545	3,148	2,607	208
– retail		216	199	133	11
– secured by mortgages on immovable property		671	661	234	19
– exposures in default		93	96	110	9
– items associated with particularly high risk		—	—	—	—
– claims in the form of collective investments undertakings		—	—	—	—
– equity		—	—	—	—
– other items		1,913	1,903	2,275	182
At 31 Dec 2018		85,977	83,400	25,972	2,078

Counterparty credit risk[1] – RWAs by exposure class and product

	At			
	30 Jun 2019		31 Dec 2018	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
By exposure class				
IRB advanced approach	**804**	**64**	1,383	111
– central governments and central banks	**—**	**—**	—	—
– institutions	**804**	**64**	1,383	111
– corporates	**—**	**—**	—	—
IRB foundation approach	**1,347**	**108**	859	69
– institutions	**273**	**22**		
– corporates	**1,074**	**86**	859	69
Standardised approach	**540**	**43**	505	40
– central governments and central banks	**4**	**—**	1	—
– regional government or local authorities	**8**	**1**	5	—
– institutions	**439**	**35**	489	39
– corporates	**89**	**7**	10	1
CVA advanced	**598**	**48**	—	
CVA standardised	**304**	**24**	683	55
CCP standardised	**184**	**15**	197	16
By product				
Derivatives (OTC and Exchange traded derivatives)	**2,062**	**165**	2,040	163
SFTs	**754**	**60**	887	71
Other	**1**	**—**	—	—
CVA advanced	**598**	**48**	—	—
CVA standardised	**304**	**24**	683	55
CCP default funds	**57**	**5**	17	1
Total	**3,776**	**302**	3,627	290

1 *Includes settlement risk.*

Introduction of the new model for counterparty credit risk.

Market risk under standardised approach

		At			
		30 Jun 2019		31 Dec 2018	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
	Risk types				
1	Interest rate risk (general and specific)	**125**	**10**	403	32
2	Equity risk (general and specific)	**—**	**—**	—	—
3	Foreign exchange risk	**48**	**4**	142	11
4	Commodity risk	**—**	**—**	—	—
	Options				
5	Simplified approach	**85**	**7**	44	4
6	Delta-plus method	**—**	**—**	—	—
7	Scenario approach	**—**	**—**	—	—
8	Securitisation	**—**	**—**	—	—
9	**Total**	**258**	**21**	589	47

Market risk under IMA

		At			
		30 Jun 2019		31 Dec 2018	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
1	**VaR (higher of values a and b)**	**953**	**76**	1,104	88
(a)	Previous day's VaR	**236**	**19**	299	24
(b)	Average daily VaR	**953**	**76**	1,104	88
2	**Stressed VaR (higher of values a and b)**	**2,654**	**213**	1,762	141
(a)	Latest SVaR	**313**	**25**	407	33
(b)	Average SVaR	**2,654**	**213**	1,762	141
3	**Incremental risk charge (higher of values a and b)**	**1,502**	**120**	—	—
(a)	Most recent IRC value	**1,294**	**104**	—	—
(b)	Average IRC value	**1,502**	**120**	—	—
5	**Other**	**—**	**—**	—	—
6	**Total**	**5,109**	**409**	2,866	229

Implementation of IRC consecutive to the introduction of the new model for the Credit Var (Section "Market Risk")

Operational risk RWAs

	At			
	30 Jun 2019		31 Dec 2018	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Own funds requirement for operational risk	**3,194**	**256**	3,194	256

Condensed financial statements

Consolidated income statement

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2019	2018	2018
	Notes	**€m**	€m	€m
Net interest income		**545**	500	511
– interest income		**959**	769	853
– interest expense		**(414)**	(269)	(342)
Net fee income	*4*	**394**	286	307
– fee income		**555**	427	439
– fee expense		**(161)**	(141)	(132)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		**13**	59	(35)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss		**792**	(110)	(528)
Changes in fair value of long-term debt and related derivatives		**–**	(3)	1
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss		**94**	39	74
Gains less losses from financial investments		**11**	11	3
Net insurance premium income		**1,252**	1,081	945
Other operating income		**91**	52	18
Total operating income		**3,192**	1,915	1,296
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(2,061)**	(1,012)	(463)
Net operating income before change in expected credit losses and other credit impairment charges		**1,131**	903	833
Change in expected credit losses and other credit impairment charges		**(54)**	(15)	25
Net operating income		**1,077**	888	858
– Employee compensation and benefits		**(520)**	(458)	(441)
– General and administrative expenses		**(443)**	(398)	(357)
– Depreciation and impairment of property, plant and equipment and right of use assets[1]		**(52)**	(19)	(21)
– Amortisation and impairment of intangible assets		**(11)**	(3)	(4)
Total operating expenses		**(1,026)**	(878)	(823)
Operating profit/(loss)		**51**	10	35
Share of profit in associates and joint ventures		**–**	–	–
Profit/(loss) before tax		**51**	10	35
Tax expense		**1**	10	(73)
Profit/(loss) for the period		**52**	20	(38)
Attributable to:				
– shareholders of the parent company		**52**	20	(37)
– non-controlling interests		**–**	–	(1)

1 *2018 does not include the impact of the right-of-use assets recognised under IFRS 16 on adoption on the 1st January 2019.*

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	€m	€m	€m
Profit/(loss) for the period	**52**	20	(38)
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value though other comprehensive income:	**24**	(15)	(9)
– fair value gains/(losses)	**45**	(12)	(9)
– fair value losses/(gains) transferred to the income statement on disposal	**(11)**	(12)	(2)
– expected credit losses recognised in income statement	**—**	1	(1)
– income taxes	**(10)**	8	3
Cash flow hedges:	**58**	24	23
– fair value gains/(losses)	**69**	9	11
– fair value losses/(gains) reclassified to the income statement	**17**	29	25
– income taxes	**(28)**	(14)	(13)
Exchange differences and other	**2**	—	—
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability:	**(15)**	5	(1)
– before income taxes	**(20)**	7	1
– income taxes	**5**	(2)	(2)
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk:	**(104)**	58	100
– before income taxes	**(155)**	90	151
– income taxes	**51**	(32)	(51)
Equity instruments designated at fair value through other comprehensive income:	**—**	—	—
– fair value gains/(losses)	**—**	—	—
– income taxes	**—**	—	—
Other comprehensive income/(expense) for the period, net of tax	**(35)**	72	113
Total comprehensive income/(expense) for the period	**17**	92	75
Attributable to:			
– shareholders of the parent company	**17**	92	76
– non-controlling interests	**—**	—	(1)

Consolidated balance sheet

	Notes	30 Jun 2019 €m	31 Dec 2018 €m
Assets			
Cash and balances at central banks		**15,233**	9,018
Items in the course of collection from other banks		**995**	437
Trading assets		**20,818**	16,966
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**11,741**	10,495
Derivatives		**51,747**	31,777
Loans and advances to banks		**7,457**	6,197
Loans and advances to customers		**56,315**	46,997
Reverse repurchase agreements – non-trading		**34,441**	32,835
Financial investments		**17,313**	16,502
Asset held for sale		**3**	30
Prepayments, accrued income and other assets		**18,313**	8,460
Current tax assets		**133**	154
Interests in associates and joint ventures		**2**	2
Goodwill and intangible assets	*5 , 8*	**1,035**	920
Deferred tax assets		**179**	156
Total assets		**235,725**	180,946
Liabilities			
Deposits by banks		**13,378**	10,828
Customer accounts		**54,940**	41,906
Repurchase agreements – non-trading		**19,297**	18,921
Items in the course of transmission to other banks		**737**	269
Trading liabilities		**25,808**	23,145
Financial liabilities designated at fair value		**17,022**	14,584
Derivatives		**50,373**	31,298
Debt securities in issue		**3,550**	2,472
Accruals, deferred income and other liabilities		**17,725**	8,437
Current tax liabilities		**98**	61
Liabilities under insurance contracts		**23,009**	21,335
Provisions	*9*	**98**	75
Deferred tax liabilities		**170**	155
Subordinated liabilities		**1,376**	876
Total liabilities		**227,581**	174,362
Equity			
Called up share capital		**475**	367
Share premium account		**1,955**	475
Other equity instruments	*3*	**500**	500
Other reserves		**1,650**	1,566
Retained earnings		**3,535**	3,647
Total Shareholders' equity		**8,115**	6,555
Non-controlling interests		**29**	29
Total equity		**8,144**	6,584
Total liabilities and equity		**235,725**	180,946

Consolidated statement of cash flows

	Notes	Half-year to		
		30 Jun 2019	30 Jun 2018	31 Dec 2018
		€m	€m	€m
Profit before tax		**51**	10	35
Adjustments for non-cash items		**114**	60	(4)
– depreciation and amortisation		**63**	22	25
– net gain from investing activities		**(20)**	(6)	(10)
– share of profits in associates and joint ventures		**—**	—	—
– change in expected credit losses gross recoveries and other credit risk provisions		**59**	16	(25)
– provisions including pensions		**18**	10	8
– share-based payment expense		**8**	6	6
– other non-cash items included in profit before tax		**(26)**	11	(6)
– elimination of exchange differences		**12**	1	(2)
Changes in operating assets and liabilities		**8,305**	(5,139)	9,288
– change in net trading securities and derivatives		**(2,150)**	(8,801)	5,929
– change in loans and advances to banks and customers[4]		**3,538**	4,388	(2,378)
– change in reverse repurchase agreements – non-trading		**(1,091)**	(3,968)	(4,795)
– change in financial assets designated at fair value		**(1,240)**	(268)	949
– change in other assets[4]		**(7,751)**	(5,452)	6,475
– change in deposits by banks and customer accounts		**2,692**	(3,572)	2,129
– change in repurchase agreements – non-trading		**376**	5,441	6,894
– change in debt securities in issue		**1,078**	(913)	(1,774)
– change in financial liabilities designated at fair value		**2,282**	2,499	2,030
– change in other liabilities		**10,513**	5,497	(6,093)
– tax paid		**58**	10	(78)
Net cash (used in)/generated from operating activities[4]		**8,470**	(5,069)	9,319
Purchase of financial investments		**(4,937)**	(2,180)	(3,047)
Net cash flow on financial investments		**2,479**	3,502	2,932
Net cash flow from the purchase and sale of property, plant and equipment		**1**	(5)	(6)
Net cash flow from disposal of customer and loan portfolios		**—**	—	—
Net investment in intangible assets		**(63)**	(30)	(85)
Net cash flow on disposal/acquisition of subsidiaries, businesses, associates and joint ventures[1]		**(10)**	32	(45)
Net cash flows from investing activities		**(2,530)**	1,319	(251)
Issue of ordinary share capital and other equity instruments[2]	3	**1,250**	300	488
Subordinated loan capital issued[3]		**500**	300	—
Dividends paid to shareholders of the parent company		**(11)**	(51)	(11)
Net cash inflow from change in stake of subsidiaries		**—**	—	—
Dividends paid to non-controlling interests		**(1)**	—	—
Net cash (used in)/from financing activities		**1,738**	549	477
Net increase/(decrease) in cash and cash equivalents[4]		**7,678**	(3,201)	9,545
Cash and cash equivalents at beginning of the period[4]		**31,031**	24,683	21,483
Exchange differences in respect of cash and cash equivalents		**(12)**	1	3
Cash and cash equivalents at the end of the period[4]		**38,697**	21,483	31,031
Cash and cash equivalents comprise of:				
– cash and balances at central banks		**15,233**	8,155	9,018
– items in the course of collection from other banks		**995**	424	437
– loans and advances to banks of one month or less[4]		**7,241**	5,067	5,651
– reverse repurchase agreement with banks of one month or less		**15,652**	7,656	15,717
– treasury bills, other bills and certificates of deposit less than three months[4]		**313**	616	477
– less: items in the course of transmission to other banks		**(737)**	(435)	(269)
Cash and cash equivalents at the end of the period[4]		**38,697**	21,483	31,031

1 *This flow corresponds to the cash amount paid for the acquisition of certain assets and liabilities of HSBC Bank plc European branches as well as the 'Cash and balances at central banks' of the branches of HSBC France acquired on 1 February 2019 (see note 2 'Business combination and disposal of subsidiaries').*
2 *Equity issuances explained in note 1h, in the section 'Significant events during the first half-year' – 'Capital increases'.*
3 *New Tier 2 issuance explained in note 1h, in the section 'Significant events during the first half-year' – 'Tier 2 issuance (Subordinated loan)'.*
4 *At 30 June 2019, HSBC changed its accounting practice to include settlement accounts with bank counterparties of one month or less on a net basis. Comparatives have been re-presented and also include other cash equivalents not included in 2018 cash and cash equivalents. The net effect of these changes increased cash and cash equivalents by EUR 6.3 billion (30 June 2018: EUR 4.6 billion and 31 December 2018: EUR 3.6 billion).*

Operating activities are representative of the HSBC France group's product-generating activities.

Investment activities represent cash flows for the acquisition and disposal of interests in consolidated and non-consolidated businesses, and property, plant and equipment and intangible assets.

Financing activities result from changes in financial structure transactions relating to equity and long-term borrowings.

Consolidated statement of changes in equity

	Called-up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI Reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2019	**842**	**500**	**3,647**	**29**	**(23)**	**(27)**	**1,587**	**6,555**	**29**	**6,584**
Profit for the period	**—**	**—**	**52**	**—**	**—**	**—**	**—**	**52**	**—**	**52**
Other comprehensive income (net of tax)	**—**	**—**	**(119)**	**24**	**58**	**2**	**—**	**(35)**	**—**	**(35)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**24**	**—**	**—**	**—**	**24**	**—**	**24**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– cash flow hedges	**—**	**—**	**—**	**—**	**58**	**—**	**—**	**58**	**—**	**58**
– re-measurement of defined benefit asset/liability	**—**	**—**	**(15)**	**—**	**—**	**—**	**—**	**(15)**	**—**	**(15)**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	**—**	**—**	**(104)**	**—**	**—**	**—**	**—**	**(104)**	**—**	**(104)**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**2**	**—**	**2**	**—**	**2**
Total comprehensive income for the period	**—**	**—**	**(67)**	**24**	**58**	**2**	**—**	**17**	**—**	**17**
– Capital securities issued during the period[2]	**1,588**	**—**	**—**	**—**	**—**	**—**	**—**	**1,588**	**—**	**1,588**
– Dividends to shareholders[3]	**—**	**—**	**(11)**	**—**	**—**	**—**	**—**	**(11)**	**—**	**(11)**
– Net impact of equity-settled share-based payments	**—**	**—**	**4**	**—**	**—**	**—**	**—**	**4**	**—**	**4**
– Change in business combination and other movements[4]	**—**	**—**	**(38)**	**—**	**—**	**—**	**—**	**(38)**	**—**	**(38)**
Total Others	**1,588**	**—**	**(45)**	**—**	**—**	**—**	**—**	**1,543**	**—**	**1,543**
At 30 Jun 2019	**2,430**	**500**	**3,535**	**53**	**35**	**(25)**	**1,587**	**8,115**	**29**	**8,144**

The following footnotes refer to the Consolidated statement of changes in equity as of the 30 June 2019:

1 *At 30 June 2019, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of EUR (48) million.*

2 *Capital securities issued explained in note 1h, in the section 'Significant events during the first half-year' – 'Capital increases'.*

3 *Dividends corresponds to EUR 11 million related to coupon payment on AT1 capital.*

4 *Merger reserves on the item 'Change in business combination and other movements' include EUR (36) million related to the acquisition of HSBC Bank plc activities in Italy, Spain, Belgium, the Netherlands, Ireland and Czech Republic by HSBC France on 1 February 2019 and the acquisition of HSBC Bank plc activities in Luxembourg by HSBC France on 1 March 2019, partially offset by the transfer of the badwill of EUR 38 million from 'Retained Earnings' to 'Merger Reserve', following the mergers of the two subsidiaries HSBC Bank Polska S.A and HSBC Institutional Trust Services (Ireland) DAC into HSBC France branches on 1 April 2019.*

At 31 Dec 2017	353	200	3,523	110	(70)	(27)	1,587	5,676	30	5,706
Impact on transition to IFRS 9[5]	—	—	28	(59)	—	—	—	(31)	—	(31)
At 1 Jan 2018[5,6]	353	200	3,551	51	(70)	(27)	1,587	5,645	30	5,675
Profit for the period	—	—	20	—	—	—	—	20	—	20
Other comprehensive income (net of tax)	—	—	63	(15)	24	—	—	72	—	72
– debt instruments at fair value through other comprehensive income	—	—	—	(15)	—	—	—	(15)	—	(15)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	24	—	—	24	—	24
– re-measurement of defined benefit asset/liability	—	—	5	—	—	—	—	5	—	5
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	58	—	—	—	—	58	—	58
– exchange differences	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	83	(15)	24	—	—	92	—	92
– Capital securities issued during the period[2]	—	300	—	—	—	—	—	300	—	300
– Dividends to shareholders[3]	—	—	(51)	—	—	—	—	(51)	—	(51)
– Net impact of equity-settled share-based payments	—	—	3	—	—	—	—	3	—	3
– Change in business combination and other movements[4]	—	—	(26)	3	—	—	—	(23)	—	(23)
Total Others	—	300	(74)	3	—	—	—	229	—	229
At 30 Jun 2018	353	500	3,560	39	(46)	(27)	1,587	5,966	30	5,996

The following footnotes refer to the Consolidated statement of changes in equity as of 30 June 2018:

1 *At 30 June 2018, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of EUR (44) million.*

2 *HSBC France has issued in March 2018 a New Tier1 capital (AT1 instrument) subscribed by HSBC Bank plc for EUR 300 million.*

3 *Dividend includes EUR 5 million related to coupon payment on AT1 capital.*

4 *At 30 June 2018, other movements include EUR (21) million related to the transfer of Group HSBC activities in Greece to the Greek branch of HSBC France on 1 January 2018.*

5 *The impact on Equity of the IFRS 9 Transition is EUR (31) million and the opening balance at 1 January 2018 has been adjusted consequently.*

6 *The amounts at 1 January 2018 do not include the transfer of Group HSBC activities in Greece to the Greek branch of HSBC France at 1 January 2018.*

Consolidated statement of changes in equity (continued)

				Other reserves						
	Called-up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI Reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jul 2018	353	500	3,560	39	(46)	(27)	1,587	5,966	30	5,996
Profit for the period	—	—	(37)	—	—	—	—	(37)	(1)	(38)
Other comprehensive income (net of tax)	—	—	99	(9)	23	—	—	113	—	113
– debt instruments at fair value through other comprehensive income	—	—	—	(9)	—	—	—	(9)	—	(9)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	23	—	—	23	—	23
– re-measurement of defined benefit asset/liability	—	—	(1)	—	—	—	—	(1)	—	(1)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	100	—	—	—	—	100	—	100
– exchange differences	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	62	(9)	23	—	—	76	(1)	75
– Capital securities issued during the period[2]	489	—	—	—	—	—	—	489	—	489
– Dividends to shareholders[3]	—	—	(11)	—	—	—	—	(11)	—	(11)
– Net impact of equity-settled share-based payments	—	—	3	—	—	—	—	3	—	3
– Change in business combination and other movements[4]	—	—	33	(1)	—	—	—	32	—	32
Total Others	489	—	25	(1)	—	—	—	513	—	513
At 31 Dec 2018	842	500	3,647	29	(23)	(27)	1,587	6,555	29	6,584

The following footnotes refer to the Consolidated statement of changes in equity as of 31 December 2018:

1 The cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a gain of EUR 100 million.

2 HSBC France made two capital increases: EUR 100 million on May 2018 and EUR 388 million on June 2018.

3 Dividends correspond to EUR 11 million related to coupon payment on AT1 other equity instrument.

4 At 31 December 2018, other movements include EUR 38 million related to the acquisition of two subsidiaries HSBC Institutional Trust Services (Ireland) DAC and HSBC Bank Polska S.A. on 1 August 2018.

Notes on the condensed financial statements

1 Basis of preparation and significant accounting policies

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

HSBC France is a domiciled entity in France. The HSBC France condensed consolidated financial statements for the half-year up to 30 June 2019 contain the financial statements of HSBC France, its subsidiaries and HSBC France's interests in jointly controlled entities and associates.

The interim consolidated financial statements of HSBC France have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). They do not include all the information disclosed in the annual financial statements and have to be consulted within the HSBC France consolidated financial statements for the year ending 31 December 2018.

At 30 June 2019, there were no unendorsed standards effective for the period ending 30 June 2019 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC France.

The consolidated financial statements of HSBC France for the financial year 2018 are available upon request from the HSBC France registered office at 103 avenue des Champs-Elysées – 75419 Paris Cedex 08 or on the website www.hsbc.fr.

These interim consolidated financial statements were closed by the Board of Directors on 2 August 2019.

(b) Standards applied during the half-year to 30 June 2019

IFRS 16 'Leases'

On 1 January 2019, HSBC France adopted the requirements of IFRS 16 retrospectively. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. The adoption of the standard on 1 January 2019 increased assets by EUR 219 million and increased financial liabilities by the same amount with no effect on net assets or retained earnings. At 30 June 2019, the impact of IFRS 16 implies a EUR 253 million symmetrical increase of assets and financial liabilities, mainly due to the acquisition of seven HSBC Bank plc European branches in February and March 2019 (refer to paragraph (h), 'Significant events during the first half-year').

On adoption of IFRS 16, HSBC France recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognised in other liabilities and were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate as at 1 January 2019. The associated right of use ('ROU') assets were recognised in other assets and were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on the balance sheet at 31 December 2018. In addition, the following practical expedients permitted by the standard were applied:

- reliance was placed on previous assessments on whether leases are onerous;
- operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were treated as short-term leases; and
- initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

The differences between IAS 17 and IFRS 16 are summarised in the table below:

IAS 17	IFRS 16
Leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.	Leases are recognised as a ROU asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis. In determining lease term, HSBC France considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option over the planning horizon of five years. In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. The rates are determined for each economic environment in which HSBC operates by adjusting swap rates with funding spreads ('OCS') and cross currency basis where appropriate.

Amendment to IAS 12 'Income Taxes'

An amendment to IAS 12 was issued in December 2017 as part of the annual improvement cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment was applied on 1 January 2019 and had no material impact. Comparatives have not been restated.

(c) Use of estimates and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported.

In the opinion of management, all adjustments considered necessary for a fair presentation of HSBC France's net income, financial position and cash flows for the period presented have been made.

The significant judgements made by management in applying the group accounting policies and the key sources of uncertainty in the estimates are the same as those on the financial statements ending 31 December 2018.

(d) Composition of HSBC France's group

The changes in the first half-year of 2019 are described in Note 2 and Note 13 of this document.

(e) Accounting policies

The accounting policies adopted by HSBC France for the interim consolidated financial statements are consistent with those described in Note 1 on the condensed financial statements of the *Annual Report and Accounts 2018*.

(f) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017 and has not been endorsed for use in the EU. It sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2021. However, the IASB is consulting on delaying the mandatory implementation date by one year and may make additional changes to the standard.

The Group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to implementation decisions as practice evolves, therefore the likely impact of its implementation remains uncertain.

(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.

(h) Significant events during the first half-year

Acquisition of the activities of European branches

As part of the structural changes to anticipate the consequences of the future exit of the United Kingdom from the European Union and in order to simplify the organisation of activities in continental Europe, HSBC France acquired certain assets and liabilities of six HSBC Bank plc European branches (in Belgium, the Czech Republic, Ireland, Italy, the Netherlands and Spain). The acquisition of these assets and the liabilities of the branches is effective since 1 February 2019 and has been done via contributions in kind from HSBC Bank plc to HSBC France.

On 1 March 2019, HSBC France has also acquired certain assets and liabilities of the Luxemburg branch, paid in cash.

Capital increases

As part of the development of its activities, in particular the acquisitions of the activities of European branches described below, HSBC France made four capital increases during the first half-year of 2019: on 14 January 2019, an increase of EUR 949.6 million (of which EUR 61.8 million of share capital), on 1 February 2019, an increase of EUR 336.3 million (of which EUR 21.9 million of share capital), on 24 May 2019, an increase of EUR 3.6 million (of which EUR 0.2 million of share capital) and on 27 June 2019, an increase of EUR 299.4 million (of which EUR 24.5 million of share capital). Following the completion of these operations, HSBC France share capital has been increased from EUR 367 million to EUR 475 million over the period.

Tier 2 issuance (Subordinated loan)

HSBC France has issued on 29 January 2019 a New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 400 million. The new Tier 2 Capital Subordinated Instrument has a maturity of 10 years and a floating rate.

HSBC France has also issued on 27 June 2019 a New Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 100 million. The new Tier 2 Capital Subordinated Instrument has a maturity of 10 years and a floating rate.

Significant Issuance of HSBC France

On 10 May 2019, HSBC France issued a senior unsecured preferred debt with a nominal value of EUR 1 billion and a maturity of five years.

Merger of two subsidiaries into HSBC France

On 1 April 2019, HSBC France merged two subsidiaries (HSBC Institutional Trust Services (Ireland) DAC and HSBC Bank Polska S.A) into its branches in Ireland and Poland respectively (HSBC France – Ireland branch and HSBC France – Poland branch).

Branch creation

On 9 May 2019, HSBC France created a branch in Sweden. The activity will start during the second half-year and thus will have no impact on the financial statements for the half-year up to 30 June 2019.

Single Resolution Fund ('SRF')

HSBC France contribution amounted to EUR 66.7 million for 2019 of which EUR 10 million recorded as committed payments. The total amount recognised as commitments to pay to the SRF fully collateralised by cash deposits is about EUR 45.3 million.

Commission sharing agreement on the division of commissions related to Unit-Linked contracts

During the first semester of 2019, a new tripartite agreement has been signed between HSBC Global Asset Management (France), HSBC France and HSBC Assurances Vie (France) on the fee sharing related to unit-linked contracts. This generated a gain of EUR 78 million in the PVIF which represents the projected increase in commissions to be earnt on insurance manufacturing over the life of contracts (see Note 5).

(i) Presentation of information

Information related to results by activity (IFRS 8) are disclosed in the Report of the Board of Directors to the Annual General Meeting on pages 7 to 14.

The following sections are presented in the Risk and Capital sections:

- Credit risks: page 23 and following
- Market risks: page 30
- Liquidity risks: pages 29 to 30
- Capital management and allocation: page 31 and following.

2 Business combination and disposal of subsidiaries

In the context of the upcoming structural changes to mitigate the consequences related to the future exit of the United Kingdom from the European Union and to simplify the legal organisation in Continental Europe, HSBC France acquired the 1 February 2019 certain assets and liabilities from European Branches of HSBC Bank plc for an acquisition price of:

- EUR 109.7 million for the activities in Czech Republic
- EUR 95.3 million for the activities in Italy
- EUR 93.2 million for the activities in the Netherlands
- EUR 19.2 million for the activities in Ireland
- EUR 12.0 million for the activities in Belgium
- EUR 7.0 million for the activities in Spain.

On 1 March 2019, HSBC France acquired certain assets and liabilities from the Luxembourg branch for EUR 33.9 million.

At HSBC Bank plc level, these transactions have been analysed as Business Combinations under Common Control (and out of the scope of 'IFRS 3 business combination'). At HSBC France level, the assets and liabilities transferred have been recognised at book value.

At the acquisition date, the assets and liabilities acquired were as follows:

	At 1 Feb 2019					At 1 Mar 2019	
	HSBC France Netherlands Branch	HSBC France Spain Branch	HSBC France Ireland branch	HSBC France Prague branch	HSBC France Milan Branch	HSBC France Belgium Branch	HSBC France Luxembourg branch
	€m	€m	€m	€m	€m	€m	€m
Assets							
Cash and balances at central banks	—	3	—	18	—	—	—
Reverse repurchase agreements	—	—	—	580	—	—	—
Derivatives	—	119	—	10	—	—	—
Loans and Advances to Banks	2,624	1,000	1,868	160	348	233	1,599
Loans and Advances to Customers	1,057	1,462	136	1,111	840	200	—
Financial investments	—	—	—	—	—	—	—
Other assets	12	47	33	14	26	5	99
Total assets	**3,693**	**2,631**	**2,037**	**1,893**	**1,214**	**438**	**1,698**
Liabilities							
Deposits by banks	642	1,562	10	851	856	159	12
Customer Accounts	2,971	865	1,981	896	250	263	1,575
Derivatives	—	127	—	10	—	—	—
Other liabilities	13	27	37	21	40	5	95
Total liabilities	**3,626**	**2,581**	**2,028**	**1,778**	**1,146**	**427**	**1,682**
Total equity	67	50	9	115	68	11	16
Total equity and liabilities	**3,693**	**2,631**	**2,037**	**1,893**	**1,214**	**438**	**1,698**

3 Dividends

(a) Dividends related to 2019

There was no interim dividend distribution for the 2019 financial year during the first half of 2019.

(b) Dividends related to 2018

The Ordinary General Meeting of 15 March 2019 approved the proposal of the Board of Directors held on 19 February 2019 to not distribute a dividend in respect of the year 2018.

(c) Earnings and dividends per share

	Six months ended		
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	€ per share	€ per share	€ per share
Basic earnings per share	**0.59**	0.30	(0.54)
Diluted earnings per share	**0.59**	0.30	(0.54)
Dividends per share	**—**	—	—

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 52 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 88,530,930 (first half of 2018: earnings of EUR 20 million and 67,437,827 weighted average number of shares; second half of 2018: half-yearly earnings of EUR (37) million and 69,531,366 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive effects of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 88,530,930 (first half of 2018: 67,437,827 shares; second half of 2018: 69,531,366 shares).
At 30 June 2019, no potentially dilutive ordinary share has been issued.

(d) Other equity instruments

Total coupons on capital securities classified as equity

		Six months ended		
		30 Jun 2019	30 Jun 2018	31 Dec 2018
	First call date	**€m**	€m	€m
Perpetual subordinated capital securities				
– EUR 200 million issued at 4.56%	May 2022	**5**	5	4
– EUR 300 million issued at 4%	March 2023	**6**	—	6
Total		**11**	5	10

4 Net fee income

Net fee income

	Half-year to		
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	€m	€m	€m
Account services	**64**	59	58
Funds under management	**89**	93	90
Cards	**23**	25	24
Credit facilities	**73**	58	59
Broking income	**4**	4	2
Unit trusts	**3**	3	2
Imports/exports	**8**	4	6
Remittances	**19**	13	12
Underwriting	**70**	30	24
Global custody	**12**	4	7
Insurance agency commission	**10**	10	10
Other[1]	**180**	124	145
Fee income	**555**	427	439
Less: fee expense	**(161)**	(141)	(132)
Net Fee income	**394**	286	307
Global business			
Retail Banking and Wealth Management	**131**	137	132
Commercial Banking	**119**	93	88
Global Banking and Markets	**133**	45	77
Global Private Banking	**10**	11	10
Corporate Centre	**1**	–	–

1 *The line 'Other' includes mainly analytical reallocations amongst business lines, HSBC inter-company fees, some inter-bank fees and various other fees.*

5 Present value of in-force insurance business ('PVIF')

HSBC France's life insurance business reported through its subsidiary HSBC Assurances Vie, is accounted for using the embedded value approach which notably provides a comprehensive risk and valuation framework. The Present Value of In-Force ('PVIF') insurance business asset represents the present value of the shareholders' interest in the profits expected to emerge from the book of in-force policies.

The calculation of the PVIF is based upon assumptions that take into account risk and uncertainty. To project these cash flows, a variety of assumptions regarding future experience is made by each insurance operation, which reflects local market conditions and management's judgement of local future trends.

Movements in PVIF

	Movement of first semester 2019	Movement on full year 2018
	€m	€m
At 1 Jan	**500**	457
Change in PVIF of long-term insurance business	**54**	43
– moving forward	**(29)**	(54)
– value of new business	**17**	25
– assumption changes and others	**83**	69
– market impact	**(27)**	(19)
– experience variances	**10**	22
At the end of the period	**554**	500

The PVIF moves from EUR 500 million as of 31 December 2018 to EUR 554 million as of 30 June 2019. Beyond the recurring effects related to the activity, this positive variation of EUR 54 million includes the following effects:

- a positive impact of current year new business of EUR 17 million;
- a negative impact of the moving forward of EUR (29) million;
- a positive impact of model changes and assumptions update of EUR 83 million mainly due to a new tripartite agreement which has been signed during the first semester 2019 between HSBC Global Asset Management (France), HSBC France and HSBC Assurances Vie (France) on the Fee sharing related to unit-linked contracts. This generated a gain of EUR 78 million in the PVIF which represents the projected increase in commissions to be earnt on insurance manufacturing over the life of contracts. This impact has not been eliminated as an intra-group operation in order to reflect in the PVIF the valuation of all the assets of the insurance company and to comply with the principle of the permanence of the accounting policies;
- a negative impact of EUR (17) million of the market impact and experience variances.

(a) Key assumptions used in the computation of PVIF for main life insurance operations

Economic assumptions are set in a way that is consistent with observable market values. The valuation of PVIF is sensitive to observed market movements and the impact of such changes is included in the sensitivities presented below.

Key assumptions modification impacts over PVIF[1]

	At	
	30 Jun 2019	31 Dec 2018
	%	%
Weighted average risk free rate	**1.11**	1.52
Weighted average risk discount rate	**2.00**	2.35
Expenses inflation	**1.70**	1.70

Risk margin over discount rate profits are[2]:

	At	
	30 Jun 2019	31 Dec 2018
	€m	€m
Operational risk	**16**	16
Model risk	**15**	15
Volatility risk	**87**	64

1 *For 2019, market value future profits' discounted rate used for the PVIF is of 2.00 per cent, to which a risk margin of EUR 117.9 million is added. For 2018, market value future profits' discounted rate used for the PVIF is of 2.35 per cent, to which a risk margin of EUR 94.8 million was added.*

2 *Risk margin (model risk, operational and volatility risk) are detailed separately.*

(b) Sensitivity of PVIF 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.

	At	
	30 Jun 2019	31 Dec 2018
	€m	€m
+100 basis points shift in risk-free rate	**41**	34
- 100 basis points shift in risk-free rate	**(62)**	(43)
+100 basis points shift in risk-discount rate	**(19)**	(23)
- 100 basis points shift in risk-discount rate	**22**	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.

(c) Sensitivity of the PVIF to non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/ or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity as of 30 June 2019 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:

PVIF sensitivity after tax

	Effect on total equity at 30 Jun 2019[1]	Effect on total equity at 31 Dec 2018[1]
	€m	€m
10% increase in mortality and/or morbidity rates	**(13)**	(13)
10% decrease in mortality and/or morbidity rates	**14**	14
10% increase in lapse rates	**(27)**	(26)
10% decrease in lapse rates	**30**	29
10% increase in expense rates	**(31)**	(30)
10% decrease in expense rates	**31**	30

1 *Impacts on profits are shown after tax in 2019 and 2018.*

Increased expense is entirely borne by the insurer and so reduces profits. Thus, an increase in costs is an expense in the insurer's results which impacts negatively its profit.

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.

6 Fair values of financial instruments carried at fair value

The accounting policies, control framework, and the hierarchy used to determine fair values are consistent with those applied for the *Annual Report and Accounts 2018*.

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

Financial instruments carried at fair value and bases of valuation

	Valuation techniques				Amount with HSBC		
	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant non-observable inputs	Third-party total	Amounts with HSBC entities	Of which Level 3	Total
	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2019							
Assets							
Trading assets	**20,010**	**806**	**2**	**20,818**	**—**	**—**	**20,818**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**10,148**	**401**	**706**	**11,255**	**486**	**86**	**11,741**
Derivatives	**15**	**29,483**	**384**	**29,882**	**21,865**	**280**	**51,747**
Financial investments	**16,798**	**46**	**13**	**16,857**	**450**	**—**	**17,307**
Liabilities							
Trading liabilities	**25,804**	**4**	**–**	**25,808**	**—**	**—**	**25,808**
Financial liabilities designated at fair value	**6,709**	**10,018**	**295**	**17,022**	**—**	**—**	**17,022**
Derivatives	**6**	**27,653**	**105**	**27,764**	**22,609**	**418**	**50,373**
At 31 Dec 2018							
Assets							
Trading assets	16,831	133	2	16,966	—	—	16,966
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	9,117	163	593	9,873	622	184	10,495
Derivatives	25	16,796	335	17,156	14,621	280	31,777
Financial investments	16,070	—	13	16,083	413	—	16,496
Liabilities							
Trading liabilities	23,125	—	—	23,125	20	—	23,145
Financial liabilities designated at fair value	5,287	9,005	292	14,584	—	—	14,584
Derivatives	4	17,252	67	17,323	13,975	368	31,298

There were no significant fair value transfer between Level 1 and Level 2.

Focus Level 3

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

	Assets					Liabilities			
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total Assets	Trading Liabilities	Designated at fair value	Derivatives	Total Liabilities
	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 30 Jun 2019									
Private equity investments including strategic investments	**10**	**–**	**422**	**–**	**432**	**–**	**–**	**–**	**–**
Asset-backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**2**	**–**	**–**	**2**	**–**	**295**	**–**	**295**
Derivatives	**–**	**–**	**–**	**384**	**384**	**–**	**–**	**105**	**105**
Other portfolios	**3**	**–**	**284**	**–**	**287**	**–**	**–**	**–**	**–**
HSBC Group subsidiaries	**–**	**–**	**86**	**280**	**366**	**–**	**–**	**418**	**418**
Total	**13**	**2**	**792**	**664**	**1,471**	**–**	**295**	**523**	**818**
At 31 Dec 2018									
Private equity investments including strategic investments	10	–	355	–	365	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–	–	–
Structured notes	–	2	–	–	2	–	292	–	292
Derivatives	–	–	–	335	335	–	–	67	67
Other portfolios	3	–	238	–	241	–	–	–	–
HSBC Group subsidiaries	–	–	184	280	464	–	–	368	368
Total	13	2	777	615	1,407	–	292	435	727

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2019	**13**	**2**	**777**	**615**	**–**	**292**	**435**
Total gains/(losses) recognised in profit or loss	**–**	**(2)**	**12**	**88**	**–**	**18**	**66**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	**–**	**(2)**	**–**	**88**	**–**	**18**	**66**
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**22**	**–**	**–**	**–**	**–**
– gains less losses from financial investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– expected credit loss charges and other credit impairment charges	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– fair value gains transferred to the income statement on disposal	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**–**	**–**	**(10)**	**–**	**–**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– financial investments: fair value gains/(losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– cash flow hedges: fair value gains/(losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases	**–**	**2**	**178**	**1**	**–**	**104**	**45**
New Issuances	**–**	**–**	**–**	**–**	**–**	**41**	**–**
Sales	**–**	**–**	**(8)**	**–**	**–**	**(158)**	**–**
Settlements	**–**	**–**	**(167)**	**(26)**	**–**	**(1)**	**(29)**
Transfers out	**–**	**–**	**–**	**(22)**	**–**	**(3)**	**–**
Transfers in	**–**	**–**	**–**	**8**	**–**	**2**	**6**
At 30 Jun 2019	**13**	**2**	**792**	**664**	**–**	**295**	**523**

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2019	**—**	**—**	**—**	**88**	**—**	**22**	**66**
– net income from financial instruments held for trading or managed on a fair value basis	**—**	**—**	**—**	**88**	**—**	**22**	**66**
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**12**	**—**	**—**	**—**	**—**
– loan impairment recoveries and other credit risk provisions	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 1 Jan 2018[1]	10	2	955	679	—	268	497
Total gains/(losses) recognised in profit or loss	—	—	(40)	(44)	—	(12)	(37)
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	—	—	(44)	—	(12)	(37)
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	12	—	—	—	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
– expected credit loss charges and other credit impairment charges	—	—	—	—	—	—	—
– fair value gains transferred to the income statement on disposal	—	—	—	—	—	—	—
– exchange differences	—	—	(52)	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	—	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	—	—	—	—	—	—	—
– cash flow hedges: fair value gains/(losses)	—	—	—	—	—	—	—
– fair value gains transferred to the income statement on disposal	—	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	—	—	50	4	—	37	1
New Issuances	—	—	—	—	—	—	—
Sales	—	—	(14)	—	—	—	—
Settlements	—	—	(119)	(19)	—	(5)	(7)
Transfers out	—	—	—	(13)	—	(11)	(58)
Transfers in	—	—	—	—	—	—	—
At 30 Jun 2018	10	2	832	607	—	277	396
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2018	—	—	—	(44)	—	(11)	(34)
– net income from financial instruments held for trading or managed on a fair value basis	—	—	—	(44)	—	(11)	(34)
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss							
– loan impairment recoveries and other credit risk provisions	—	—	—	—	—	—	—

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jul 2018	10	2	832	607	—	277	396
Total gains/(losses) recognised in profit or loss	—	—	27	(4)	—	(15)	4
– net income from financial instruments held for trading or managed on a fair value basis	—	—	—	(4)	—	(15)	4
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	43	—	—	—	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
– expected credit loss charges and other credit impairment charges	—	—	—	—	—	—	—
– fair value gains transferred to the income statement on disposal	—	—	—	—	—	—	—
– exchange differences	—	—	(16)	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	1	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	1	—	—	—	—	—	—
– cash flow hedges: fair value gains/(losses)	—	—	—	—	—	—	—
– fair value gains transferred to the income statement on disposal	—	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	2	—	130	12	—	27	5
New Issuances	—	—	—	—	—	15	—
Sales	—	—	(11)	—	—	—	—
Settlements	—	—	(201)	6	—	(12)	8
Transfer out	—	—	—	(7)	—	—	—
Transfer in	—	—	—	1	—	—	22
At 31 Dec 2018	13	2	777	615	—	292	435
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 Dec	1	—	—	(3)	—	(13)	4
– trading income excluding net interest income	1	—	—	(3)	—	(13)	4
– net income/(expense) from other financial instruments designated at fair value	—	—	—	—	—	—	—
– loan impairment charges and other credit risk provisions	—	—	—	—	—	—	—

1 Opening balances exclude Greek branch.

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 30 Jun 2019				At 31 Dec 2018			
	Reflected in profit or loss		**Reflected in other comprehensive Income**		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Derivatives/trading assets/trading liabilities[1]	**9**	**(9)**	**—**	**—**	6	(6)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**45**	**(31)**	**—**	**—**	38	(31)	—	—
Financial investments	**—**	**—**	**1**	**(4)**	—	—	1	(4)
HSBC Group subsidiaries	**19**	**(19)**	**—**	**—**	12	(12)	—	—
Total	**73**	**(59)**	**1**	**(4)**	56	(49)	1	(4)

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

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

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
At 30 Jun 2019				
Private equity investments including strategic investments	**42**	**(26)**	**1**	**(1)**
Asset-backed securities	**—**	**—**	**—**	**—**
Structured notes	**1**	**(1)**	**—**	**—**
Derivatives	**9**	**(9)**	**—**	**—**
Other portfolios	**2**	**(4)**	**—**	**(3)**
HSBC Group subsidiaries	**19**	**(19)**	**—**	**—**
Total	**73**	**(59)**	**1**	**(4)**
At 31 Dec 2018				
Private equity investments including strategic investments	35	(26)	1	(1)
Asset-backed securities	—	—	—	—
Structured notes	1	(1)	—	—
Derivatives	6	(6)	—	—
Other portfolios	2	(4)	—	(3)
HSBC Group subsidiaries	12	(12)	—	—
Total	56	(49)	1	(4)

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

Quantitative information about significant unobservable input in Level 3 valuations

The following table lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2019. The categories of key unobservable inputs are described in the Note 13 of the *Annual Report and Accounts 2018*.

	Fair value[1]				Full range of inputs		Core range of inputs	
	Assets	Liabilities		Key unobservable	Lower	Higher	Lower	Higher
	€m	€m	Valuation technique	inputs	%	%	%	%
At 30 Jun 2019								
Private equity including strategic investments	**432**	**–**	**See notes below[4]**	**See notes below[4]**	**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	**–**	**–**						
Loans held for Securitisation	**–**	**–**						
Structured notes	**2**	**295**						
– equity-linked notes	**–**	**236**	**Model – Option model**	**Equity volatility**	**–**	**–**	**–**	**–**
– fund-linked notes	**–**	**–**	**Model – Option model**	**Fund volatility**	**–**	**–**	**–**	**–**
– FX-linked notes	**–**	**–**	**Model – Option model**	**FX volatility**	**–**	**–**	**–**	**–**
– other	**2**	**59**						
Derivatives	**664**	**523**						
Interest rate derivatives	**651**	**520**						
– securitisation swaps	**138**	**1**	**Model – DCF[3]**	**Prepayment rate**	**50**	**50**	**50**	**50**
– long-dated swaptions	**432**	**371**	**Model – Option model**	**IR volatility**	**16**	**36**	**18**	**31**
– other	**81**	**148**						
Foreign exchange derivatives	**–**	**–**						
– foreign exchange options	**–**	**–**	**Model – Option model**	**FX volatility**	**9**	**11**	**9**	**11**
Equity derivatives	**13**	**3**						
– long-dated single stock options	**–**	**–**	**Model – Option model**	**Equity volatility**				
– other	**13**	**3**						
Credit derivatives	**–**	**–**						
– other	**–**	**–**						
Other portfolios	**373**	**–**						
Total Level 3	**1,471**	**818**						
At 31 Dec 2018								
Private equity including strategic investments	365	–	See notes below[4]	See notes below[4]	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	292						
– equity-linked notes	–	277	Model – Option model	Equity volatility	–	–	–	–
– fund-linked notes	–	–	Model – Option model	Fund volatility	–	–	–	–
– FX-linked notes	–	–	Model – Option model	FX volatility	–	–	–	–
– other	2	15						
Derivatives	615	435						
Interest rate derivatives	590	406						
– securitisation swaps	129	4	Model – DCF[3]	Prepayment rate	50	50	50	50
– long-dated swaptions	383	325	Model – Option model	IR volatility	16	33	18	30
– other	78	77						
Foreign exchange derivatives	16	16						
– foreign exchange options	16	16	Model – Option model	FX volatility	8	14	9	14
Equity derivatives	9	13						
– long-dated single stock options	–	–	Model – Option model	Equity volatility	–	–	–	–
– other	9	13						
Credit derivatives	–	–						
– other	–	–						
Other portfolios	425	–						
Total Level 3	1,407	727						

1 *Including Level 3 amounts with HSBC Group subsidiaries.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted Cash Flow.*
4 *See notes on page 187 of the* Annual Report and Accounts 2018.

7 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue and subordinated liabilities is consistent with that detailed in the *Annual Report and Accounts 2018*.

		Fair value			
	Carrying amount	Level 1 – quoted market price	Level 2 – using observable inputs	Level 3 – with significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 30 Jun 2019					
Assets					
Loans and advances to banks	**7,457**	**—**	**6,317**	**1,138**	**7,455**
Loans and advances to customers	**56,315**	**—**	**22**	**56,393**	**56,415**
Reverse repurchase agreements – non-trading	**34,441**	**—**	**34,441**	**—**	**34,441**
Financial investments: debt securities at amortised cost	**6**	**—**	**—**	**6**	**6**
Liabilities					
Deposits by banks	**13,378**	**—**	**13,378**	**—**	**13,378**
Customer accounts	**54,940**	**—**	**54,940**	**—**	**54,940**
Reverse repurchase agreements – non-trading	**19,297**	**—**	**19,297**	**—**	**19,297**
Debt securities in issue	**3,550**	**—**	**3,550**	**—**	**3,550**
Subordinated liabilities	**1,376**	**—**	**1,376**	**—**	**1,376**
At 31 Dec 2018					
Assets					
Loans and advances to banks	6,197	1	6,096	101	6,198
Loans and advances to customers	46,997	—	—	47,033	47,033
Reverse repurchase agreements – non-trading	32,835	—	32,835	—	32,835
Financial investments: debt securities at amortised cost	6	—	—	6	6
Liabilities					
Deposits by banks	10,828	—	10,828	—	10,828
Customer accounts	41,906	—	41,901	—	41,901
Reverse repurchase agreements – non-trading	18,921	—	18,921	—	18,921
Debt securities in issue	2,472	—	2,472	—	2,472
Subordinated liabilities	876	—	876	—	876

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

8 Goodwill

Impairment testing

As described on page 197 of the *Annual Report and Accounts 2018*, HSBC France tests goodwill for impairment annually and whenever there is an indication that goodwill may be impaired.

As a reminder, as of 31 December 2016, HSBC France has impaired its goodwill on RBWM and Private Banking.

As of 31 December 2018, the annual impairment test exercise on Asset Management and Commercial Banking (CMB) did not evidence any impairment need.

As the result on CMB's goodwill impairment test is very sensitive to macroeconomic market context and to forecast on RWAs, this impairment test will be closely monitored during the second semester of 2019.

The sensitivity of the main financial parameters which impact the Discounted Cash Flow model (variation in per cent of the central value) is presented in the table below, based on 31 December 2018 impairment test results:

Discount factor			Long-term growth rate		
	1%	1.5%	2%	2.5%	3%
8.40%	+4%	+12%	+22%	+33%	+47%
8.90%	-5%	+2%	+10%	+20%	+31%
9.15%	-10%	-3%	+5%	+14%	+24%
9.40%	-13%	-7%	Central value	+8%	+18%
9.65%	-17%	-11%	-5%	+3%	+12%
9.90%	-20%	-15%	-9%	-2%	+6%
10.40%	-27%	-22%	-16%	-10%	-3%

9 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Other provisions	Total
	€m	€m	€m	€m
Provisions (excluding contractual commitments)				
At 31 Dec 2018	**24**	**15**	**12**	**51**
Additions	**3**	**3**	**11**	**17**
Amounts utilised	**(7)**	**(3)**	**(2)**	**(12)**
Unused amounts reversed	**—**	**(1)**	**(2)**	**(3)**
Exchange and other movements	**—**	**—**	**—**	**—**
At 30 Jun 2019	**20**	**14**	**19**	**53**
Contractual commitments[1]				
At 31 Dec 2018				**24**
Net change in expected credit loss provisions				**—**
Transfer-in[2]				**21**
At 30 Jun 2019				**45**
Total provisions				
At 31 Dec 2018				**75**
At 30 Jun 2019				**98**

1 *The contractual commitments provisions at 30 June 2019 represented IAS 37 provisions on off-balance sheet loan commitments and guarantees, for which expected credit losses are provided following IFRS 9.*
2 *This amount corresponds to the amount transferred due to the acquisition of certain assets and liabilities of European branches on 1 February 2019 and on 1 March 2019 from HSBC Bank plc.*

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

10 Contingent liabilities, contractual commitments and guarantees

		At	
		30 Jun 2019	31 Dec 2018
	Footnotes	**€m**	€m
Guarantees and contingent liabilities:			
– financial guarantees		**1,129**	1,086
– performance and other guarantees	*1*	**11,729**	7,704
– other contingent liabilities	*2*	**130**	—
At the end of the period		**12,988**	8,790
Commitments:			
– documentary credits and short-term trade-related transactions		**771**	656
– forward asset purchases and forward deposits placed	*3*	**74,210**	54,962
– standby facilities, credit lines and other commitments to lend[1]	*4*	**40,290**	30,537
At the end of the period		**115,271**	86,155

1 *Performance and other guarantees at 30 June 2019 include EUR 3.7 billion related to seven HSBC France European branches whose assets and liabilities were acquired in the first half of 2019.*
2 *Other contingent liabilities are related to the Czech branch of HSBC France.*
3 *The increase of forward asset purchases and forward deposits placed are due to the increase of reverse repurchase and repurchase agreements activities.*
4 *Standby facilities, credit lines and other commitments to lend are based on original contractual maturity. At 30 June 2019, they include EUR 3.6 billion related to seven HSBC France European branches whose assets and liabilities were acquired in the first half of 2019.*

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

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

HSBC group entities, including HSBC 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 in the section 'Legal risks and litigation management' in page 129 of the 2018 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 30 June 2019.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings, entered into an agreement with the office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, consented to a cease-and-desist order with the Federal Reserve Board ('FRB') and agreed to an undertaking with the UK Financial Conduct Authority ('FCA') to comply with certain forward-looking AML and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who is, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act, and for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme (the 'Skilled Person/ Independent Consultant').

The Skilled Person/Independent Consultant will continue to conduct country reviews and provide periodic reports for a period of time at the FCA's and FRB's discretion.

Through the Skilled Person/Independent Consultant's country-level reviews, as well as internal reviews conducted by HSBC, certain potential AML and sanctions compliance issues have been identified that HSBC is reviewing further with the FRB, FCA and/or OFAC.

Bernard L. Madoff Investment Securities LLC

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

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

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

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

The Madoff-related proceeding HTIE is involved in is described below:

Defender case:

In November 2013, Defender Limited brought an action against HTIE and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish Court issued a judgement in HTIE's favour on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgement concluded the trial without further issues in dispute being heard. In February 2019, Defender Limited appealed the judgement.

US litigation:

The Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court'), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the actions have moved to dismiss the Trustee's claims. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016. In February 2019, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') reversed the US Bankruptcy Court's dismissal of the Trustee's claims and remanded the cases to the US Bankruptcy Court. Further proceedings in the US Bankruptcy Court have been stayed pending the filing and disposition of a petition by HSBC and other parties to the US Supreme Court to hear the cases.

European interbank offered rates investigations

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America ('US'), the European Union, Italy, Switzerland, and elsewhere 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.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil 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 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 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.

12 Transactions with related parties

HSBC France has issued, on 29 January 2019 and on 27 June 2019, two Tier 2 Capital (Tier 2 instrument) subscribed by HSBC Bank plc for EUR 400 million and EUR 100 million respectively.

In addition, as part of the structural changes to anticipate the consequences of the future exit of the United Kingdom from the European Union and in order to simplify the organisation of activities in continental Europe, HSBC France acquired, on 1 February 2019, certain assets and liabilities of six HSBC Bank plc European branches (in Belgium, the Czech Republic, Ireland, Italy, the Netherlands and Spain). On 1 March 2019, HSBC France has also acquired certain assets and liabilities of the Luxemburg branch.

Excluding these operations, there were no changes in the related party transactions described in the *Annual Report and Accounts 2018* that have had a material effect on the financial position or performance of the HSBC France's group in the six months leading up to 30 June 2019 and all related party transactions that took place in the half-year to 30 June 2019 were similar in nature to those disclosed in the *Annual Report and Accounts 2018*.

13 Changes in consolidation perimeter during the first half-year of 2019

The table below shows the changes, in the first half-year of 2019, within the legal perimeter published in the *Annual Report and Accounts 2018*, Note 40.

Removals:	**Additions:**
HSBC HORIZ.2016-2018 FCP 3DEC	HSBC EURO PROTECT 80 PLUS PART C
SAF Zhu jiang jiu	HSBC PORT-WORLD SEL 5-AHEUR
CCF Charterhouse GmbH & Co Asset Leasing KG	HSBC GIF GL EMG MKT EQY A 3D
CCF Charterhouse GmbH	
HSBC Bank Polska S.A.	
HSBC Institutional Trust Services (Ireland) DAC	
Elysees GmbH	

14 Events after the balance sheet date

There have been no significant events between 30 June 2019 and the date of approval of these financial statements which would require a change to or an additional disclosure in the financial statements.

In its assessment of events after the balance sheet date, HSBC France considered, amongst other, the events related to the process of the UK's withdrawal from the European Union that occurred between 30 June 2019 and the date when the financial statements were authorised for issue, and concluded that no adjustments to the financial statements were required.

Statutory Auditors' review report on the 2019 half-year financial information

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

This is a free translation into English of the Statutory Auditors' review 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 auditing standards applicable in France.

(For the six-month period ended 30 June 2019).

To the Shareholders,

HSBC FRANCE

103, avenue des Champs-Elysées
75419 Paris Cedex 08

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

- the review of the accompanying condensed half-year consolidated financial statements of HSBC France, for the six months ended June 30, 2019;
- the verification of the information contained in the half year management report.

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

1 Conclusion on the financial statements

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

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

Without qualifying our conclusion, we draw your attention to note 1 which sets out the evolution of the accounting principles resulting from the adoption of IFRS 16 'Leases' as of January 1, 2019.

2 Specific verification

We have also verified the information given in the half-year management report on the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly sur Seine and Paris, August 5, 2019

French original signed by

PricewaterhouseCoopers Audit	**BDO France – Léger Et Associés**
Nicolas Montillot	Michel Léger

Person responsible for the universal registration document

Mr Jean Beunardeau, Chief Executive Officer.

Statement by person responsible

To the best of my knowledge, having taken all reasonable steps for this purpose, I certify that the information provided in this universal registration document is true and accurate and contains no material omission that would impair its significance.

I certify, to the best of my knowledge, that the condensed accounts for the first half of the financial year have been prepared in accordance with the relevant accounting standards and give a fair view of assets and liabilities, financial position and result of the company and of all the entities included in the consolidation, and that the interim management report on pages 7 to 14 presents a fair review of the significant events that occurred during the first six months of the financial year, their impact on the accounts and the major related party transactions, as well as a description of the principal risks and uncertainties for the remaining six months of the financial year.

Paris, 5 August 2019

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date		
	First appointed	Re-appointed	Term ends
Incumbents			
PricewaterhouseCoopers Audit[1] Represented by Nicolas Montillot[2] 63, rue de Villiers 92200 Neuilly-sur-Seine	**2015**	**2018**	**2024**
BDO France – Léger & Associés[3] Represented by Michel Leger[4] 43-47 avenue de la Grande Armée 75116 Paris	**2007**	**2018**	**2024**

1 *Member of the Compagnie Régionale des Commissaires aux comptes of Versailles.*
2 *Starting from 2015 PricewaterhouseCoopers Audit is represented by Nicolas Montillot.*
3 *Member of the Compagnie Régionale des Commissaires aux comptes of Paris.*
4 *BDO France – Léger & Associés represented by Michel Leger starting from 2019.*

Cross-reference table

The following cross-reference table refers to the main headings required by the European regulation 2017/1129 (Annex I and Annex II) implementing the directive known as 'Prospectus' and to the pages of the *Annual Report and Accounts 2018* D.19-0065 updated by this document named Universal Registration Document.

Sections of Annex I of the EU Regulation 2017/1129		Pages in registration document D. 19-0065 filed with the AMF on 20 Feb 2019	Pages in the Universal Registration Document
1	**Persons responsible, third party information, experts' reports and competent authority approval**		
1.1 & 1.2	Persons responsible	page 268	page 63
1.3	Experts' reports	N/A	–
1.4	Third party information	N/A	–
1.5	Competent authority approval	N/A	–
2	**Statutory auditors**	page 269	page 64
3	**Risk factors**	pages 72 to 145	pages 15 to 31
4	**Information about the issuer**	page 265	–
5	**Business overview**		
5.1	Principal activities	pages 3, 8 to 18 and 228	pages 4 to 14
5.2	Principal markets	pages 3, 8 to 18 and 228	pages 4 to 14
5.3	Important events	pages 167 to 168, 228	pages 47 to 48
5.4	Strategy and objectives	pages 4 to 7, 17 to 18	pages 4 to 5
5.5	Potential dependence	N/A	–
5.6	Founding elements of any statement by the issuer concerning its position	pages 3 and 18	–
5.7	Investments	pages 212, 217 to 219, 259 to 262 and 272	–
6	**Organisational structure**		
6.1	Brief description of the group	pages 2 to 19, 253 and 259 to 262	–
6.2	Issuer's relationship with other group entities	pages 259 to 261	–
7	**Operating and financial review**		
7.1	Financial condition	pages 147, 149, 226 to 227	pages 40 and 42
7.2	Operating results	pages 11 to 18, 147 and 226	pages 7 to 14 and 40
8	**Capital resources**		
8.1	Issuer's capital resources	pages 151 and 243	pages 44 to 45
8.2	Sources and amounts of the issuer's cash flows	page 150	page 43
8.3	Borrowing requirements and funding structure	pages 72, 109 to 111, 142	pages 32 and 35
8.4	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect the issuer's operations	N/A	–
8.5	Sources of funds needed	N/A	–
9	**Regulatory environment**	pages 9 and 10, 142	–
10	**Trend information**	page 17	page 12
11	**Profit forecasts or estimates**	N/A	–
12	**Administrative, management and supervisory bodies and senior management**		
12.1	Administrative and management bodies	pages 21 to 29	–
12.2	Administrative and management bodies conflicts of interests	page 30	–
13	**Remuneration and benefits**		
13.1	Amount of remuneration paid and benefits in kind granted	pages 39 to 49, 172 to 177	–
13.2	Total amounts set aside or accrued by the issuer or its subsidiaries to provide for pension, retirement or similar benefits	pages 39 to 49, 172 to 177	–
14	**Board practices**		
14.1	Date of expiration of the current term of office	pages 21 to 29	–
14.2	Information about members of the administrative, management or supervisory bodies' service contracts	N/A	–
14.3	Information about the issuer's audit committee and remuneration committee	pages 34 to 35, 38	–
14.4	Corporate governance regime	page 29	–
14.5	Potential material impacts on the corporate governance	N/A	–
15	**Employees**		
15.1	Number of employees	page 172	page 14
15.2	Shareholdings and stock options	page 43	–
15.3	Arrangements involving the employees in the capital of the issuer	N/A	–
16	**Major shareholders**		
16.1	Shareholders holding more than 5 per cent of the share capital or voting rights	pages 265 to 267	–
16.2	Different voting rights	page 265	–
16.3	Control of the issuer	pages 29 and 269	page 64
16.4	Arrangements, known to the issuer, which may at a subsequent date result in a change in control of the issuer	N/A	–

18	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information	pages 18, 146 to 219, 225 to 254, 271	
18.2	Interim and other financial information	N/A	pages 40 to 61, page 62
18.3	Auditing of historical annual financial information	pages 220 to 224 and 255 to 258	
18.4	Pro forma financial information	N/A	–
18.5	Dividend policy	page 180	page 49
18.6	Legal and arbitration proceedings	pages 129 to 130	pages 60 to 61
18.7	Significant change in the issuer's financial position	pages 216 and 250	page 61
19	**Additional information**		
19.1	Share capital	pages 208, 242 and 266	–
19.2	Memorandum and Articles of Association	pages 265 to 266	–
20	**Material contracts**	page 266	–
21	**Documents available**	page 265	–

Sections of Annex II of the EU Regulation 2017/1129		**Pages in registration document D.19-0065 filed with the AMF on 20 Feb 2019**	**Pages in the Universal Registration Document**
1	**Information to be disclosed about the issuer**	N/A	Refer to Annex I.4

In application of Article 212-13 of the *Autorité des marchés financiers'* General Regulations, this update contains the information of the interim financial report referred to in Article L.451-1-2 of the French Monetary and Financial Code and Article 222-4 of the AMF's General Regulations:

- Management report
  - Main events occurring during the first six months of 2019 — pages 3, 7 to 8
  - Main risks and uncertainties — pages 15 to 31
  - Principal related party transactions — page 61
- Condensed consolidated financial statements — pages 40 to 61
- Report of the Statutory Auditors on the interim financial information at 30 June 2019 — page 62
- Statement by person responsible — page 63

The following items are incorporated by reference:

- the consolidated financial statements for the year ended 31 December 2016 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 190 to 287 and 288 to 289 of reference document D.17-0118 filed with the AMF on 1 March 2017; the information can be found here : https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2016/annual-results/hsbc-france/170302-hsbc-france-ddr-2016-01032017.pdf
- the consolidated financial statements for the year ended 31 December 2017 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 126 to 187 and 188 to 193 of reference document D.18-0068 filed with the AMF on 22 February 2018; the information can be found here : https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2017/annual-results/hsbc-france/180222-hbfr-ara-2017-fr.pdf
- the consolidated financial statements for the year ended 31 December 2018 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 146 to 219 and 220 to 224 of reference document D.19-0065 filed with the AMF on 20 February 2019; the information can be found here : https://www.hsbc.com/-/files/hsbc/investors/investing-in-hsbc/all-reporting/subsidiaries/2017/annual-results/hsbc-france/190220-hbfr-ara-2018-fr.pdf

The chapters of the reference documents not mentioned above are either of no interest to investors or are covered in another section of this update.

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

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

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