HSBC France

Annual Report and Accounts 2014

HSBC

The HSBC Group

HSBC is one of the largest banking and financial services organisations in the world.
HSBC purpose is to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfill their hopes and realise their ambitions.

Customers: 51 million.
Served by: 266,000 employees.
Through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, Global Private Banking.
Located in: 73 countries and territories.
Across five geographical regions: Europe, Asia, Middle East and North Africa, North America, Latin America.
Offices: Over 6,100.
Listed on stocks exchanges in: London, Hong Kong, New York, Paris, Bermuda.
Shareholders: 216,000 in 127 countries and territories.

Highlights – Year ended 31 December 2014:
Reported profit before tax was down 17 per cent to USD 18,680 million.
Adjusted profit before tax was down 1 per cent to USD 22,829 million.
Profit attributable to shareholders of the parent company was USD 13,688 million.
Total assets were USD 2,634 billion.

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AMF

This Registration Document was filed with the *Autorité des marchés financiers* on 2 March 2015, in accordance with article 212-13 of the AMFs General Regulations. It may be used in support of a financial transaction if supplemented by a Transaction Note that has received approval from the *Autorité des marchés financiers*. This document was produced by the issuer and is binding upon its signatories.

Annual Report and Accounts 2014

Contents

This is a free translation into English of the original Registration Document issued in French and provided solely for the convenience of English-speaking readers. In case of discrepancy, the French version prevails.

Report of the Board of Directors to the Annual General Meeting

HSBC France is the subsidiary of one of the most solid banking groups in the world, the HSBC Group, which aims to be the world's leading international bank. In France, HSBC aims to become the partner of reference to assist French companies in their international development and individuals in the management of their assets.

The HSBC Group's purpose

Key strategic orientations

The HSBC Group is based on a universal banking model and relies on a comprehensive range of banking and financial services aimed at a business and retail clientele wishing to benefit from the strengths of the HSBC Group, one of the world's leading financial institutions, and especially its international presence and its solid financial position.

A global positioning

Long-term trends

HSBC Group's strategy is aligned to two long-term trends:

– The world economy is becoming ever more connected, with growth in world trade and cross-border capital flows continuing to outstrip growth in average gross domestic product. Over the next decade HSBC expects growth in trade and capital flows to outstrip GDP growth, and 35 markets to generate 90 per cent of world trade growth with a similar degree of concentration in cross-border capital flows;

– Of the world's top 30 economies, HSBC expects those of Asia, Latin America, the Middle East and Africa to have increased by around four-fold in size by 2050, benefiting from demographics and urbanisation. By this time they will be larger than those of Europe and North America combined. By 2050, HSBC expects 18 of the 30 largest economies will be from Asia, Latin America or the Middle East and Africa.

HSBC business model is based on an international network connecting and serving a consistent portfolio of markets.

Competitive advantages

In this environment HSBC's competitive advantages come from:

– its meaningful presence and long-term commitment to its key strategic markets;

– its international business network, to cover global trade and capital flows;

– its balanced business portfolio centred on its global client franchise;

– its strong ability to add to its capital base while also providing competitive rewards to its staff and good returns to its shareholders;

– its local balance sheet strength.

Products and services

The HSBC Group divides its activities into four business segments: Retail Banking and Wealth Management (RBWM); Commercial Banking (CMB); Global Banking and Markets (GBM); and Global Private Banking (GPB).

The businesses lines are responsible for developing, implementing and managing their business propositions consistently across the HSBC Group.

Retail Banking and Wealth Management

Retail Banking and Wealth Management includes Personal Financial Services, Asset Management and Insurance activities. It takes deposits and provides transactional banking services to enable customers to manage their day-to-day finances and save for the future. It offers credit facilities to assist them in their short or longer-term borrowing requirements and it provides financial advisory, insurance and investment services to help them to manage and protect their financial futures.

Commercial Banking

Commercial Banking provides a broad range of banking and financial services to enable customers to manage and grow their businesses domestically and internationally. Its range of products, services and delivery channels is tailored to meet the needs of specific customer segments. HSBC is leading the development of the Renminbi as a trade currency, with Renminbi capabilities in more than 50 markets.

It has organised itself around its customers' needs and degree of complexity by developing three distinct segments within Commercial Banking: Business Banking, Mid-Market and Large Corporates.

Global Banking and Markets

Global Banking and Markets provides wholesale capital markets as well as transaction banking and financing services to its customers. It is an ideal partner for large corporations and institutionals, helps their projects and transactions, both in France and worldwide thanks to HSBC Group's dimension as both a local and global player.

HSBC offers a complete range of services including: advisory, lending, structured finance, mergers and acquisitions, debt and equity capital markets, project finance, cash management, trade finance and market activities (rates, foreign exchange and equities).

Private Banking

Drawing on the strength of the HSBC Group and the most suitable products from the marketplace, Private Banking works with its clients to provide solutions to grow, manage and preserve wealth for today and for the future.

It offers products and services tailored to the needs of resident and international high-net-worth individuals, through the expertise of its discretionary and advisory management teams.

HSBC Group's strategic priorities

HSBC France is carefully committed to deliver, in France, HSBC Group's strategy organised around three interconnected and equally weighted priorities:

- grow the business and dividends;
- implement Global Standards;
- streamline processes and procedures.

Each priority is complementary and underpinned by initiatives within its day-to-day business. Together, they create value for its customers and shareholders and contribute to the long-term sustainability of HSBC.

Grow the business and dividends

In growing the business and dividends, the targets are to grow risk-weighted assets (RWA) in line with its organic investment criteria and progressively grow dividends while maintaining a strong balance sheet.

HSBC aims to achieve growth by leveraging the international network and its client franchise to improve its market position in strategic products.

In 2014, HSBC launched a number of investment priorities to capitalise on its global network and accelerate organic growth focus on Global Trade and Receivables Finance (GTRF), Payments and Cash Management (PCM), Foreign Exchange (Fx) and Renmibi (RMB).

Implement Global Standards

Through its *Global Standards* program, HSBC is adopting the highest or most effective controls and deploying them everywhere it operates.

It expects from its *Global Standards* to underpin its business practices now and in the future, and to provide a source of competitive advantage.

Streamline processes and procedures

HSBC continue to refine its operational processes, develop its global functions, implement consistent business models and streamline IT.

Since 2011, HSBC has changed how the Group is managed by introducing a leaner reporting structure and establishing a global operating model with global businesses and functions to ensure central control and improved oversight.

A strategy executed in France

The HSBC Group concentrates its activity on its 21 priority markets which include France and where HSBC deploys all its business segments and has established global platforms for some markets activities.

HSBC France is fully aligned with HSBC Group's strategy, which aims to seize growth opportunities while continuously improving efficiency and protecting its activity and customers through the most demanding standards in terms of compliance, with a specific focus on fighting against financial crime, under the Global Standards program implemented by the HSBC Group throughout the world. HSBC France continues to develop its activity across all global businesses by:

- continuing to focus on wealth management for individuals;
- leveraging HSBC Group's assets, especially on its international connectivity, to increase its revenues on corporates market;
- reinforcing Global Banking and Markets positioning in Paris as a strategic hub for the HSBC Group;
- strengthening synergies across the different businesses.

In addition to these initiatives, HSBC France is also aiming to improve its efficiency by simplifying procedures and adapting the organisational structure of each global business. Furthermore, the organisation is also benefiting from an ambitious training policy. The development of leadership skills in managing their teams remains a strategic priority.

Retail Banking and Wealth Management

Capitalising on the HSBC Group strengths, HSBC France's ambition is to become the leading bank in Wealth Management. Benefiting from a physical presence in major French cities, and three direct branches, HSBC France is supported by teams of experts specialised by customer profile and offers adapted to HSBC Premier and HSBC Advance customers' aspirations. HSBC France has undertaken many initiatives designed to:

- improve the investment and advisory offered in multi-management and brokerage platform to support the growing needs of customers in long-term investments, particularly for retirement preparation;
- continue to enhance the Wealth Management expertise of staff, especially for HSBC Premier, in order to provide customers products and services tailored to their individual expectations, while focusing on risk management awareness;
- address customers demand for multi-channel services.

Its three growth priorities are customer growth in target segments, deepening customer relationships through wealth management and relationship-led lending, and enhancing distribution capabilities, including digital.

Implementing *Global Standards* by enhancing risk management control models and simplifying processes also remain top priorities for Retail Banking and Wealth Management.

Commercial Banking

Commercial Banking aims to be the first international bank for its French customers. It offers a full range of banking products and solutions and provides an international network and Relationship Managers to

Report of the Board of Directors to the Annual General Meeting (continued)

support its customers in their development. It has four growth priorities:

- ensuring consistency and efficiency for its customers through a business model organised around global customer segments and products;
- using its distinctive geographical footprint to support and facilitate global trade and capital flows;
- delivering excellence in its core flow products, specifically in Trade Finance and Payments and Cash Management;
- enhancing collaboration with other global businesses.

Implementing *Global Standards*, enhancing risk management controls and simplifying processes also remain top priorities for Commercial Banking.

Global Banking and Markets
Global Banking and Markets business model and strategy is well established with the objective of being a 'top 5' bank for its priority clients.

HSBC focuses on the following growth priorities:

- connecting clients to international growth opportunities;
- continuing to be well-positioned on products that will benefit from global trends;
- leveraging its distinctive international expertise and geographical network which connects developed and faster-growing regions;
- enhancing risk management controls, implementing *Global Standards*, collaborating with other global businesses and simplifying processes.

HSBC France will continue to fulfil its role as a strategic platform for Continental Europe and as a centre of excellence in euro rate products and equity derivatives, with Continental Europe underlyings primarily by increasing synergies with other countries and by broadening the range of products offered to large corporate clients. HSBC France will continue to adjust the bank's core business to changes in the regulatory environment while preserving its reputation and its leading position in the official league tables.

The regulatory provisions adopted in accordance with the Law on banking separation were published on 10 July and 3 October 2014. As specified by the law, on 30 June 2014, HSBC France submitted to the ACPR a file which included the mapping and qualification of its trading activities and the mandates of the trading units. The trading activities of HSBC France are performed within the framework specified by the law and do not require the creation of a dedicated subsidiary. A minor activity on rates financial instruments was put in run off. The control teams, notably, have been engaged in order to assess the internal operating framework, to ensure the traceability of information and to develop the enhanced control programme. Since 2 January 2015, most of the market making metrics are monitored. All the required metrics will be transmitted to the ACPR from 1 April 2015.

Private Banking
Private Banking aims to continue to grow by building synergies with Commercial Banking and Retail Banking to expand its customer base. Implementing Global Standards, enhancing risk management controls, tax transparency and simplifying processes also remain top priorities for Private Banking.

Change of the organisational structures of HSBC Group in France

HSBC France legal structures simplification program has continued with the objective to exit unnecessary corporate structures, make disposals or intra-group structures mergers.

In December 2013, HSBC France acquired all HSBC Assurances Vie (France) shares from HSBC Bank plc Paris Branch. Consequently, as at 31 December 2013, only the balance sheet was consolidated and the P&L of the insurance company are included in the scope of consolidation as of 1 January 2014.

In February 2014, HSBC Services (France), a 100 per cent subsidiary of HSBC France, sold its 34 per cent holding in Financière d'Uzès to the Goirand SA company.

The bank's performance in 2014

Environment

The bank's performance developed facing a difficult economic background as well as severe regulatory changes.

2014 saw weaker overall economic growth than expected given the significant stimulus measures adopted (in both fiscal and monetary policy) and favourable economic factors, notably low inflation. Although growth there slowed, China became the world's largest economic power. While some countries, including the USA and UK, saw a small recovery, economies remained depressed in 2014 both in France and in the rest of continental Europe, with growth and inflation close to zero, and rising business failures and unemployment.

Slower economic growth and an increase in supply triggered a significant fall in oil prices, increasing deflationary pressures. Against this background, the European Central Bank continued and stepped up its programme of massive liquidity injections, taking short-term interest rates close to zero and producing a fall of the euro on the FX markets.

The weak economic climate, coupled with geopolitical tensions on Europe's borders, increased risk aversion for investors and pushed long-term interest rates to record lows, driving up the value of bond products but reducing interest margin. Conversely, equity indices, which rose in the first half, slipped back at the end of the year.

European Banking Union continued to move forward in 2014, with the gradual introduction of Basel III standards. These standards, which introduce new requirements for liquidity and solvency, have the effect of increasing the requirements for capital and liquid assets at banks and will gradually result in an adjustment in their risk profiles. In addition, many laws or regulations have already been or are in the process of being enacted in several countries or at European level (law on separation of banking activities, resolution mechanisms, financial transactions tax), which will prompt banks to enhance their organisation structure and review risk appetite, and strengthen their control systems and consumer protection policies.

One significant advance in supra-national supervision within the eurozone is the creation of an authority within the framework of the European Central Bank's Single Supervisory Mechanism. HSBC France, in common with all the main eurozone banking establishments, is now supervised by this new authority. On this occasion, the results of the Comprehensive Assessment helped reassure financial markets about the solidity of major European banks.

Since November 2014, HSBC France is regulated by the European Central Bank (ECB), the *Autorité de contrôle prudentiel et de résolution* (ACPR) and the *Autorité des marchés financiers* (AMF). On a Group-wide basis, French entities are regulated from the UK by the Prudential regulation authority (PRA) for prudential matters (safety and soundness) and by the Financial conduct authority (FCA) for conduct (consumer and market protection).

Scope of the performance review

Performance is analysed below from three different perspectives, based on IFRS as defined in Note 1[1] to the consolidated financial statements:

- HSBC's operations in France (managed perimeter)[2];
- HSBC France group's consolidated results (legal perimeter);
- The "France" geographical segment as used by HSBC Holdings plc in its analysis of geographical contribution to the HSBC Group's results.

HSBC France's performance on the basis of its parent company financial statements, prepared in accordance with the generally accepted accounting principles applicable to credit institutions in France[3], is analysed in the Note to the parent company financial statements entitled "2014 Highlights", page 246.

Consolidated Financial Results for HSBC in France (managed perimeter)

In order to make easier to understand the review of the performance of the Group and its subsidiaries, HSBC has elected to supplement the accounting data published with a presentation of the main lines of management accounts on an 'adjusted' basis. This approach consists of restating reported 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 France:

Significant items

(in millions of euros)	**2014**	2013
Revenues		
Impact of credit spread on own debt under fair Value option	**(61)**	(3)
Non Qualifying Hedges relating to housing loans portfolio	**(173)**	52
DVA (Debit Valuation Adjustment)	**(23)**	(4)
Expenses		
Restructuring costs in respect of the year	**(7)**	(6)
Total adjustments	**(264)**	39

Reported profit before tax amounted EUR 252 million compared with EUR 654 million in 2013. This evolution is mainly due to the impact of significant items listed above, the decrease in revenue of manufacturing insurance driven by a large unfavourable PVIF[4] movement offset by a satisfactory performance from businesses as well as a profitability improvement driven by a fall in expense.

Total

(in millions of euros)	**2014**	2013
Net operating income before loan impairment charges	**2,026**	2,455
Loan impairment charges	**(112)**	(97)
Operating expenses	**(1,662)**	(1,700)
Income from associates	**–**	(4)
Reported profit before tax	**252**	654
Adjusted profit before tax	**516**	615

Reported revenue amounted EUR 2,026 million compared with EUR 2,455 million in 2013. "Adjusted" revenue at HSBC France, at EUR 2,283 million, was slightly down on its level of EUR 2,410 million in the previous year, but nevertheless included a sharp fall in manufacturing insurance revenue, linked with the impact of the change in PVIF on life assurance policies (economic PVIF[5] EUR -147 million in 2014, from EUR +9 million in 2013) hit by the sharp fall in long-term interest rates. HSBC France continues to support its customers, offering them financing solutions for their projects, and the strength of new loan production helped offset the negative effect of lower interest rates on deposit margins.

1 *See Note 1 of the consolidated financial statements page 156.*
2 *The managed perimeter relates to the contribution of France to the results of HSBC Bank plc operations, which includes the HSBC France group legal perimeter in its entirety, and also the Paris branch of HSBC Bank plc, which is engaged in equity derivative activities and comprises, until the end of 2013, the results of HSBC Assurances Vie (France). It does not include the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch.*
3 *See Note 1 to the parent company financial statements, page 247.*
4 *Present Value of In Force (see Note 18 to the consolidated financial statements, page 156.*
5 *Economic PVIF includes accounting PVIF, hedging instruments and technical provisions.*

Report of the Board of Directors to the Annual General Meeting (continued)

The cost of credit risk was EUR -112 million, from EUR -97 million in 2013, which was a record low at HSBC France, due primarily to substantial reversals of provisions on several files relating to large corporates. The level seen in 2014 was moderate and in line with the cost of risk observed between 2008 and 2012. In 2014, individual provisions rose slightly in Commercial Banking and returned to their trend level in Global Banking. The normative cost of risk represented 0.33 per cent of outstanding client loans, compared with 0.25 per cent in 2013 and 0.32 per cent in 2012.

Operating expense at HSBC in France was reduced to EUR 1,662 million (2 per cent lower than in 2013) due primarily to tight control of staff costs and the non-repetition of certain exceptional items. In accordance with HSBC Group global strategy, HSBC France continues to seek greater efficiency in order to meet the challenges of a changing market through a commitment to a programme of sustainable cost savings. Due to the strengthening of regulations, and Global Standards deployment, HSBC France pursues its compliance investments. Adjusted cost efficiency ratio was stable at 73 per cent prior to restatement of the significant PVIF movement.

Performance by global business

Retail Banking and Wealth Management

As part of the HSBC Group's strategic focus on Wealth Management, HSBC in France is consolidating its position as a leader in the mass affluent segment.

Retail Banking and Wealth Management

(in millions of euros)	**2014**	2013
Net operating income before loan impairment charges	**656**	1,014
Loan impairment charges	**(21)**	(24)
Operating expenses	**(778)**	(776)
Reported profit before tax	**(143)**	214
Adjusted profit before tax	**34**	165

This activity now has around 835,000 clients. The HSBC Premier client base remains the market in which HSBC France wishes to maintain a particular commercial focus, notably with the Premier Relaunch campaign in the second half of 2014. This segment thus continued to make strong gains in customer recruitment, with around 28,000 new to bank. The proportion of HSBC Premier clients in the total remained stable at close to 48 per cent.

Retail Banking and Wealth Management's strategy is based on two key areas: Wealth Management and mortgage lending as part of a full banking relationship.

Total client assets at the year-end increased to EUR 36.2 billion, from EUR 35.2 billion a year earlier.

Wealth Management benefited from an increase in client deposits, which stood at EUR 13.7 billion in 2014, with growth of 2 per cent and particularly strong growth in sight deposits which rose 9.5 per cent to EUR 6.3 billion, ahead of the 4.6 per cent growth in the market as a whole. Conversely, saving deposits fell by EUR 0.3 billion, with the fall coming mainly in non-regulated saving accounts, in a stable market.

The life assurance business saw a very significant change in PVIF during 2014. This figure represents the present value of future revenue on policies over a 40-year period and changes are recognised in income. PVIF was significantly affected by the sharp fall in interest rates.

Life assurance inflows in 2014 kept increasing but at a slower pace than competition. Within the production, unit-linked products represented 16 per cent. Gross production rose by +3.5 per cent to EUR 1.9 billion and net inflows were positive and greater than in 2013. Assets under management by the insurance company were EUR 19.1 billion, from EUR 18.5 billion a year earlier (+3 per cent).

Asset Management continued to grow in both the institutional and high net worth segments. Assets managed and distributed reached EUR 75 billion, an increase of 11 per cent, with growth coming across all asset classes and a particularly strong improvement in long-term products.

The expertise of France in fixed income management within the HSBC Group made a significant contribution to growth in assets under management for international clients (new mandates and inflows on open funds and European institutional clients).

The retail loan book increased by 8 per cent, to more than EUR 17 billion in a French lending market that remained slack. New mortgage lending of EUR 4 billion was nevertheless EUR 1 billion below its level in 2013. Margins on the new lending were satisfactory after taking account of the liquidity cost.

As a result, reported revenue fell sharply from EUR 1,014 million in 2013 to EUR 656 million in 2014. Adjusted revenue (restated of changes in value of Non Qualifying Hedges), at EUR 829 million, was lower than in 2013 (EUR 962 million), driven by an increase in interest income and asset management fees. Excluding the effect of changes in economic PVIF, revenue grew by 3 per cent. It continued to be driven by interest margin and asset management commissions, confirming the strength of the various business activities.

The cost of risk in Retail Banking and Wealth Management remained under control at EUR -21 million, compared with EUR -24 million in 2013. 2014 saw a significantly lower impact from operational losses with respect to credit.

Operating expenses were EUR 778 million, stable from EUR 776 million in 2013.

Reported profit before tax in Retail Banking and Wealth Management was EUR -143 million compared with EUR 214 million the previous year. From an adjusted point of view, profit before tax displayed a EUR 34 million, from EUR 165 million in 2013. The effect of fall in manufacturing insurance revenue, linked with negative changes in PVIF, masked an actual improvement in performance in other activities.

Commercial Banking

In line with the HSBC Group's strategy in France, Commercial Banking continued to focus on becoming the partner of choice for businesses, particularly in their international expansion.

Commercial Banking

(in millions of euros)	**2014**	2013
Net operating income before loan impairment charges	**655**	651
Loan impairment charges	**(79)**	(73)
Operating expenses	**(395)**	(386)
Reported profit before tax	**181**	192
Adjusted profit before tax	**182**	195

Against a background of weak demand for lending from companies, HSBC France increased its outstanding long-term and medium-term loan book by EUR 0.2 billion to EUR 7.7 billion. This result came from a strong staff performance and the introduction of a EUR 1.5 billion envelope dedicated to help clients' international projects. Total outstanding loans in Commercial Banking averaged EUR 10 billion over 2014. Deposit growth accelerated with an increase of nearly 6 per cent to EUR 9.2 billion for sight deposits, against a background of low interest rates and limited attractiveness of bank investments.

Commercial Banking also continued to exploit synergies with Global Banking and Markets, seeking innovative solutions for its customers. This cooperation resulted in several major deals in debt issuance, initial public offerings and innovative financing structures.

Reported revenue in Commercial Banking, driven by interest margin and growth in insurance operations, came to EUR 655 million, an increase of 1 per cent on the 2013 figure of EUR 651 million.

The cost of risk in Commercial Banking was EUR -79 million, an increase of 8 per cent on 2013, as the result of a difficult economic background. Normative loan loss rate was increased to 0.84 per cent of outstanding loans.

Operating expense rose slightly between 2013 and 2014 (from EUR 386 million in 2013 to EUR 395 million in 2014). Thus, against an uncertain economic background, Commercial Banking delivered a solid performance with a stable cost efficiency ratio at 60 per cent.

Commercial Banking reported a EUR 181 million profit before tax from EUR 192 million in 2013. Adjusted profit before tax was EUR 182 million (EUR 195 million in 2013).

HSBC's strategy in France which is to support SMEs in their international expansion, is reinforced by the revenue generated by French customers in other international HSBC Group entities, which now represents the equivalent of one third of revenues generated by the same companies in France. In 2014, this revenue rose by 10 per cent to more than USD 77 million. Revenue generated by clients of other international HSBC Group entities in France rose by 35 per cent thanks to improvements in the structure for welcoming international clients.

Global Banking and Markets

HSBC France supports large corporates, institutional investors and governments in their plans in both the French and international markets. It is the HSBC Group's platform for euro fixed-income products and structured equity derivatives with Continental Europe underlyings.

Global Banking and Markets

(in millions of euros)	**2014**	2013
Net operating income before loan impairment charges	**721**	770
Loan impairment charges	**(12)**	–
Operating expenses	**(437)**	(501)
Income from associates	**–**	(4)
Reported profit before tax	**272**	265
Adjusted profit before tax	**296**	270

2014 was characterised by a sluggish economy, a climate of record low interest rates, relatively low market volatility and an increase in regulatory pressure, particularly in terms of liquidity and capital requirements.

By continuing to support its clients through advisory and financing in these difficult circumstances, HSBC France consolidated or improved its positions in various rankings: 6th for Debt Capital Markets in France[1] and 2nd in euro-denominated sovereign debt issuance[2], 8th in mergers and acquisitions[1] and Equity Capital Markets[1].

In the Markets activity, HSBC France continued constantly to feature amongst the leading market makers in Eurozone countries issuing significant volumes of government debt, notably in France, where HSBC ranked fifth among the primary dealers (SVT)[3]. In particular, HSBC's involvement in issuances conducted by the Republic of Portugal, Kingdom of Spain and EDF were recognised in the award of "Bond House of the Year"[4], "SSAR Bond House of the Year"[4] and "Derivatives House of the Year"[4].

Reported net operating income in Global Banking and Markets was EUR 721 million in 2014 (EUR 770 million in 2013). From an "adjusted" point of view, NOI stood at EUR 744 million, down 4 per cent from 2013. 2014 revenues comprise EUR 20 million charge in respect of accounting for Funding Fair Value Adjustment. The decrease in revenues from 2013 came both in Banking and Capital Financing, despite a strong performance in debt and equity capital markets, and Markets which suffered a poor fourth quarter like much of the rest of the industry.

1 *Dealogic 31/12/2014.*
2 *Dealogic 31/12/2014, "Euro SSA Bonds".*
3 Agence France Trésor.
4 *International Financial Review (IFR).*

Report of the Board of Directors to the Annual General Meeting (continued)

Revenue generated by French clients in international markets was stable on its 2013 level, and now accounts for more than 55 per cent of total revenue generated by French clients within the HSBC Group. In France, despite difficult economic conditions, revenue from clients of other entities in the HSBC Group rose by 21 per cent.

The cost of risk in Global Banking and Markets was EUR -12 million in 2014, marking a return to 2012 levels after the favourable impact of reversals of provisions in 2013.

Reported operating expense, at EUR -437 million, reflected the efforts made to control costs, were significantly lower than in 2013. In a more restrictive regulatory environment, HSBC in France is investing in compliance function and benefited from a reduction in non-recurring expenses.

Reported profit before tax amounted EUR 272 million from EUR 265 million in 2013. On an adjusted basis, profit before tax was EUR 296 million and EUR 270 the previous year.

Private Banking
The Private Banking business was integrated within HSBC France in 2012. This was also an opportunity to redefine and refocus its strategy on the high net worth segment and to adapt its products to a demanding clientele.

Private Banking

(in millions of euros)	**2014**	2013
Net operating income before loan impairment charges	**40**	43
Loan impairment charges	**–**	–
Operating expenses	**(40)**	(27)
Reported profit before tax	**–**	16
Adjusted profit before tax	**–**	16

Against a background that did nothing to help the Private Banking sector, assets under management remained at more than EUR 6 billion, with revenue slightly decreasing at EUR 40 million. Excluding the decrease in manufacturing insurance revenues linked to the PVIF movement, revenues were stable at EUR 43 million.

At EUR -40 million, operating expense was higher than in 2013, when it benefited from a favourable outcome to a long-running dispute.

Reported profit before tax is break-even. This result, which includes a change of EUR -3 million in PVIF in 2014, confirmed the return to profitability on ordinary operations.

Contribution of HSBC in France operations to the French economy

HSBC in France operations contribute to the financing of the French economy over several ways.

Individuals financing
HSBC France contributed with dynamism to the housing market financing with increased lending volumes in 2014 and a EUR 4 billion new loans. The total loan book increased by 8 per cent in a year.

Corporates financing and international support
HSBC in France dedicated a EUR 1.5 billion envelope, fully allocated, to its SME customers' international development. Medium and long term lending balances grew at EUR 7.7 billion.

HSBC is positioned as a core bank for its French customers thanks to its presence over 73 countries around the world and faster growing emerging markets (China, India, Brazil…) and contributed to significant deals with its large customers.

Governments and local authorities financing
HSBC France is a major participant in the public debt market in France, ranking second in the primary market for government securities[1]. The HSBC Group is also one of the main participant in the public debt market in Europe. This market allows securities issuance, eases secondary market liquidity and helps governments to access the market and finance their projects.

With its historical presence in France, HSBC is one of the few banks to have its entire euro platform in Paris and to make Paris one of its four global centres of expertise in the Capital Markets worldwide.

Since 2008, local authorities increased their use of debt market which allows diversified financing sources for their investments (education, transports, etc.) in a situation of harder access to banking credit. HSBC France is positioned as the main bookrunner and arranger for local authorities issuances for more than ten years.

Other contributions
In addition, HSBC France undertakes corporate sponsorship notably in relation to environment, education and cultural activities (the detailed information is presented in the chapter Corporate, social and environmental responsibility).

Consolidated financial results for the HSBC France group (legal perimeter)

Reported Revenue at HSBC France was EUR 1,929 million, compared with EUR 2,222 million in 2013, down 13 per cent. This unfavourable change relates, for a large part, to the change in significant items: change in market value of Non Qualifying Hedges, change in market value of own debt under fair value option due to credit spread, and change in Debit Valuation Adjustment. 2014 revenues are slightly impacted by the integration of HSBC Assurances Vie within the consolidation scope, the significant negative PVIF[2] movement offsetting additional revenue.

1 *Dealogic 31/12/2014, "Euro SSA Bonds".*
2 *Present Value of In force.*

Despite such elements, HSBC France's lines of business displayed a satisfactory performance in an uneven context. Retail Banking and Wealth Management grew its revenue thanks to an increase in asset management fees and a sustained home loans production allowing to mitigate the fall in deposits margins. Revenue in Commercial Banking slightly increased despite a deteriorated background for corporates. Global Banking and Markets saw its revenue slightly decrease in a sluggish environment and change in Debit Valuation Adjustment (DVA) as well as accounting for Funding Fair Value Adjustment, while significantly lowering its balance sheet size.

The cost of risk was EUR -112 million, compared with EUR -97 million in 2013, which was a record low for cost of risk at HSBC France, due primarily to substantial reversals of provisions on several files relating to large customers. Loans loss rate displays a moderate 0.33 per cent of the loan book.

HSBC France had operating expenses of EUR -1,585 million, compared with EUR -1,575 million in 2013. This increase, of EUR 10 million, came from the change in the scope of consolidation relating to the integration of HSBC Assurances Vie (France) almost offset by a significant reduction in the cost base, firstly because of the non-recurrence of certain costs booked in 2013 and secondly because of HSBC France's efforts, in accordance with HSBC Group global strategy, to seek greater efficiency in order to meet the challenges of a changing market through a commitment to a programme of sustainable saves. HSBC France is implementing the HSBC Global Standards' programme and pursues its investments in regulatory and financial crime compliance.

Profit before tax on ordinary activities was EUR 232 million, compared with EUR 546 million in 2013. Net profit attributable to shareholders of the parent company in 2014 was EUR 198 million.

HSBC France's consolidated balance sheet had total assets of EUR 201 billion at 31 December 2014, compared with EUR 209 billion at 31 December 2013. HSBC France's central bank deposits were reduced by EUR 5 billion. The trading portfolio was down EUR 3 billion and reverse repo securities decreased by EUR 13 billion. Conversely, derivatives rose by EUR 11 billion due to the fall in interest rates. The customer loans portfolio continued to grow, by EUR 2 billion, due to further strong loan production.

On the liability side, deposits from banks rose by EUR 3 billion including HSBC France's involvement in the Targeted Long Term Refinancing Operation (TLTRO). The trading portfolio decreased by EUR 8 billion with a reduction in short positions and repo securities fell by EUR 17 billion, whilst derivatives increased by EUR 13 billion in relation with fall in interest rates. The value of insurance contracts taken out by clients rose by EUR 1 billion.

The liquidity ratio remained high at 128 per cent and above the minimum required by French regulations of 100 per cent. The ACF (Advances to Core Funding) ratio, an internal indicator used by the HSBC Group, which compares customer loans with stable deposits and funding with a maturity of more than one year, was 101 per cent, demonstrating HSBC France's solid liquidity position.

In order to finance the development of its businesses, HSBC France issued EUR 2 billion medium-term negotiable debt securities with a 2-year term (28 basis points above 3-month Euribor). HSBC France participated to the Targeted Long Term Refinancing Operations (TLTRO) up to EUR 1.1 billion in order to continue to support the development of HSBC France's clients by offering them lending at competitive rates.

HSBC France also increased its regulatory capital at the end of 2014 in the form of Tier 2 subordinated debt, of EUR 260 million, which was entirely subscribed by HSBC Holdings plc.

In 2014, risk-weighted assets increased by EUR 1 billion to EUR 33.3 billion, due notably to the impact of the Basel III rules on the assessment of counterparty risk.

As a result, the Common Equity Tier 1 (CET1) ratio rose from 13.7 per cent at end 2013 to 14.1 per cent at end 2014.

The Leverage Ratio came to 3.52 per cent at end 2014. The ratio will be communicated publicly from January 2015 and will be mandatory under Pillar I from 2018.

Results of the European Central Bank Comprehensive Assessment

Before the European Central Bank (ECB) formally took responsibility for bank supervision under the Single Supervisory Mechanism (SSM), that started on 4 November 2014, it has conducted a Comprehensive Assessment of the "significant banks" that it now directly supervise. This assessment included notably an Asset Quality Review (AQR) and a stress test exercise (the latter carried out jointly with the European Banking Authority). It covered 128 banks in 18 Member States representing 85 per cent of the Eurozone bank assets. HSBC France, and HSBC Bank Malta plc, as part of the SSM, have been included in the assessment carried out. The rest of HSBC Group was not included.

Asset Quality Review findings and adjustments

The Asset Quality Review, which was completed in July 2014, consisted of a detailed and wide review of the banks' market and credit activities as well as Finance, assessing bank's policies and processes of in-scope areas, but also reviewing credit files and several market models on HSBC France accounts as of 31 December 2013.

Asset Quality Review qualitative assessment acknowledged that procedures, accounting rules and processes enforced by HSBC France are compliant with French and International accounting rules.

The quantitative review led to several limited prudential adjustments on collective provisions, individual provisioning of credit files and Credit Valuation Adjustment. These adjustments totalled EUR 106 million as of 31 December 2013, representing -26 basis points of CET1 ratio.

Following the AQR methodology, these prudential adjustments did not have to be automatically incorporated in HSBC France's accounts. Nevertheless, in the course of 2014 and as part of the regular review process of provisions, HSBC France has increased its individual provisions by EUR 44.9 million on the credit files that have then been in the scope of the AQR.

Regarding the other prudential adjustments on collective provisions and CVA reserve, HSBC France has carried in-depth analyses of the relevance to reflect such amount in its 2014 accounts. These analyses led to the conclusion that the level of collective provisions and CVA reserve calculated by HSBC France, in compliance with accounting standard and HSBC Group policy, do reflect fairly the financial situation of the bank.

Stress test

The joint ECB/EBA stress test followed the methodology communicated by the EBA in March and April 2014 for the 2014 EU-wide stress tests. The resilience of European Union banks has been assessed using a three year time horizon (2014-2016) under the assumption of a static balance sheet.

Results of the stress test have been published jointly by the EBA and the ECB on 26 October 2014. For SSM significant banks, like HSBC France, the stress test ratios have been corrected with the AQR adjustments. An 8 per cent Common Equity Tier 1 (CET1) ratio was the capital hurdle rate set for the baseline scenario and 5.5 per cent CET1 for the adverse scenario.

HSBC France passed the ECB/EBA Stress with lowest CET1 ratios in the period of the stress tests of 11.21 per cent and 6.60 per cent respectively for the base and the adverse scenarios, from an AQR-adjusted CET1 ratio as of 31 December 2013 of 12.59 per cent. These results are higher than the capital hurdle rates.

Evolution of CET1 ratios across stress tests scenarios for HSBC France

	Baseline				Adverse		
	2013	2014	2015	2016	2014	2015	2016
CET1 – transitional not adjusted	12.86%	11.49%	11.71%	11.97%	8.26%	7.45%	6.93%
CET1 – transitional adjusted with AQR	**12.59%**	**11.21%**	**11.40%**	**11.63%**	**8.02%**	**7.17%**	**6.60%**
Capital buffer vs EBA thresholds (in percentage points of CET1)	–	3.21%	3.40%	3.63%	2.52%	1.67%	1.10%

Stress tests are more impacting for HSBC France compared to its French peers mainly due to the following reasons:

- HSBC France's Corporate and Investment Banking activities are key in its business model; HSBC France is notably the Group platform for euro denominated products. These activities have been significantly stressed by the methodology of the exercise.
- Unlike many other significant banks, HSBC France did not use, for this exercise, any internal model to compute the stressed parameters (exposures, probability of default, loss given default). The bank has decided to use parameters provided by the ECB, more conservative as they have been designed to be applicable to any banks in a given eurozone country.

Financial results for the country "France"[1] as considered by HSBC Holdings plc in its analysis of geographical contribution to the HSBC Group's results

In 2014, the country "France", as considered by the HSBC Group, contributed to the global profit before tax of USD 214 million (EUR 150 million), compared with USD 750 million (EUR 567 million) in 2013.

Difference in figures between the above figures and those in commentaries in respect of the managerial perimeter is mainly due to the integration in the above figures of the funding costs related to the CCF acquisition in 2000 by HSBC Bank plc.

Proposed resolutions

The Board of Directors has drawn up the following resolutions presented at the Combined General Meeting on 23 April 2015.

In Resolution 1, the Board proposes that the shareholders, having read the Board's management report, the Auditors' report on the financial statements and the reports of the Chairman and the Statutory Auditors on the practices of the Board and internal control and risk management procedures, approve the annual financial statements for the year ended 31 December 2014 as well as the transactions reflected in those statements or summarised in those reports.

1 *The contribution of the country "France" to the results of HSBC Group includes the HSBC France group, excluding the results of entities legally owned by HSBC France but located outside France, and also includes the Paris branch of HSBC Bank plc, which is engaged in equity derivative activities, as well as the results of HSBC Assurances Vie (France) until the end of 2013, and including the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch.*

Resolution 2 concerns the allocation of the 2014 net profit of EUR 393,117,648.00. Along with retained earnings of EUR 3,357,913,364.26, the profit available for distribution amounts to EUR 3,751,031,012.26. The dividend to be paid to the shareholders would be EUR 2.23 per share, for a total distribution of EUR 150,386,354.21. Therefore, retained earnings would amount to EUR 3,600,644,658.05. The dividend will be payable on 23 April 2015.

Resolution 3 proposes that the shareholders approve the consolidated financial statements at 31 December 2014, so as to comply with article L. 225-100 of the French Commercial Code, after having heard the Statutory Auditors' report on consolidated financial statements.

Resolution 4 proposes that the shareholders approve the related party agreements covered by article L. 225-38 of the French Commercial Code, after having heard the Statutory Auditors' report on these agreements.

Resolution 5 proposes that the shareholders ratify the Board's co-optation on 20 January 2015 of Mr Andrew Wild, as Director, to replace Mr Peter Shawyer who has resigned.

Resolutions 6 and 7 propose that the shareholders renew the directorships of Mrs Anne Méaux and Mr Philippe Pontet for a term of three years ending with the Annual General Meeting that will be called to approve the financial statements of the year ending in 2017.

Resolution 8 proposes to appoint Mrs Carola Gräfin Von Schmettow as Director in addition to the Directors currently in office.

In Resolution 9, the Board proposes that you appoint PricewaterhouseCoopers Audit and Mr Jean-Baptiste Deschryver as new statutory and alternate Auditors for the remaining term of their predecessors, KPMG Audit FS II and KPMG Audit FS I, who have resigned. That term will end with the General Meeting called to approve the financial statements of the year ending in 2017.

In accordance with the recommendation in paragraph 24.3 of the AFEP/MEDEF Code, to which the company refers pursuant to article L. 225-37 of the French Commercial Code, the shareholders are asked in Resolutions 10 and 11 to issue a favourable opinion on the components of compensation due or awarded to Mr Jean Beunardeau, Chief Executive Officer, and Mr Gilles Denoyel, Deputy Chief Executive Officer, in respect of the year just ended, as described in the Registration Document 2014 on pages 33 to 35.

In accordance with the provisions of article L. 511-73 of the French Monetary and Financial Code, the shareholders are asked in Resolution 12 to issue a favourable opinion on the aggregate amount of compensation of all kinds paid in 2014 to executive members and professionals having a significant impact on risks, which amounts to EUR 46,390,607.

To enable the company to build up its equity capital if necessary, or to take advantage of investment opportunities that may arise, Resolution 13 seeks authorisation for the Board to increase the company's share capital by up to EUR 100 million. The proposed resolution also allows this to be done by incorporation of reserves and share premiums.

Under article L. 225-129-6, indent 1 of the French Commercial Code, whenever the shareholders delegate authority to the Board to make a cash capital increase, the shareholders must also, at the same Extraordinary General Meeting, consider a draft resolution to make a capital increase under the conditions set forth in articles L. 3332-18 and following of the French Labour Code, that is reserved for participants in an employee share-ownership plan.

To comply with the aforementioned legal requirement, Resolution 14 proposes that the shareholders decide on the principle of granting an authority to the Board to increase the share capital by issuing shares reserved for participants in the employee share ownership plan.

This resolution is presented to the shareholders to meet this legal obligation, but the Board is not disposed to make a capital increase of this kind, given that employees of the company are already able to participate in capital increases reserved for them under the Employee Share Ownership Plan of the HSBC Group.

Resolution 15 proposes to harmonise the Company's Articles of Association with the requirements of Ordinance n°2014-863 of 31 July 2014 on company law and Decree 2014-1466 of 8 December 2014, which amended the date and the conditions for establishing the list of persons entitled to attend to the meetings of shareholders and bondholders of commercial companies.

The 16th and last resolution is intended to grant full powers to the bearer of an original, a copy or an excerpt of the minutes of this General Meeting to carry out the required formalities.

Senior Executives

Directors and members of the Executive Committee

Jean Beunardeau

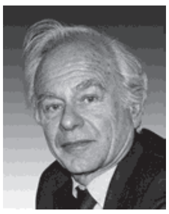
Chief Executive Officer, Head of Global Banking and Markets, France.
Group General Manager of the HSBC Group.

Age 53. Graduated from Ecole Polytechnique, Telecom engineer and Master of Economy, he began his career at the Ministry of Finance, mainly at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC France in 1997 in Corporate Finance and became Managing Director in 2000. He was appointed Co-Head of Corporate Investment Banking and Markets, mainly in charge of Corporate and Investment Banking in March 2004. In 2005, he was appointed Senior Corporate Vice-President. In September 2007, he was appointed Head of Global Banking and Markets of HSBC France. Since 1 February 2010, he has been Deputy CEO and Deputy to the CEO, in addition to his current role as Head of Global Banking and Markets France. In November 2010, he was appointed Head of Global Banking, Continental Europe, HSBC Group. Since 10 January 2012, he has been CEO of HSBC France and retains his role as Head of Global Banking and Markets, France.

Andrew Wild

Deputy Chief Executive Officer, Deputy to the CEO, HSBC France (since 1 March 2015).
Head of Commercial Banking in France (since 2 February 2015).

Age 44. British nationality. Graduate of the Business School of the University of Nottingham. He is also qualified as a chartered accountant. He joined the HSBC Group in 2005, after having been, in particular, Senior Manager Transaction Services at KPMG then, Corporate Finance Director at KPMG Corporate Finance. In June 2008, he was appointed Deputy Head of Commercial Banking of HSBC France. In April 2011, he was appointed Global Head of Corporate, Business Banking and Products of Commercial Banking, HSBC Group, then he became, in August 2013, Global Head of Mid-Market and Business Banking of Commercial Banking, HSBC Group. Since 2 February 2015, he is Head of Commercial Banking in France and Deputy Chief Executive Officer, Deputy to the CEO of HSBC France since 1 March 2015.



Philippe Pontet

Chairman Investment Banking.

Age 72. He joined HSBC France in 2005 as Vice-Chairman of Corporate Finance Europe. In February 2005, he was appointed member of HSBC France's Board. At the end of August 2007, he was appointed member of HSBC's New European Advisory council. Over the last 30 years he has held a number of leading positions in the French banking and industrial sectors, including Chairman and CEO of the banking group Crédit Industriel et Commercial; Chairman and CEO of Framatome; and Chairman of AREVA prior to joining HSBC in January 2005. Since September 2007, he has been Chairman Investment Banking.

Other members of the Executive Committee

Anne-Lise Bapst	Head of Communication
Marine de Bazelaire	Head of Corporate Sustainability
Xavier Boisseau	Head of Global Markets
Loïc Bonnat	Head of Principal Investments
Hubert Bouxin	Co-Head of Banking
Anne-Catherine Colleau	Head of Financial Crime Compliance
Myriam Couillaud	Head of Human Resources
Eric Emoré	Head of Insurance
François Essertel	Head of Private Banking
Laurent Facque	Head of Regulatory Compliance
Sébastien Guillo	Head of Strategy and Organisation
Marc de Lapérouse	Head of Legal
Mathilde Lemoine	Chief Economist - French Economic Research Department
Nathalie Léonard	Head of Tax
Malachy McAllister	Head of Capital Financing
Philippe Moiroud	Chief Operating Officer, HSBC France, and Chief Operating Officer, Global Banking and Markets, France
François Mongin	Head of HSBC France Internal Audit
Matteo Pardi	Head of Asset Management
Emmanuel Rémy	Chief Risk Officer
Laurence Rogier	Chief Financial Officer
Pierre Ruhlmann	Head of Retail Banking and Wealth Management
Simon Vaughan Johnson	Head of France Transformation

Composition of the Board of Directors

Composition of the Board of Directors of HSBC France on 1 March 2015[1]

Samir Assaf *Born in 1960*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2016.

Principal position:
Member of the Group Management Board. Chief Executive Officer Global Banking and Markets, HSBC Group. Chairman of the Board of Directors, HSBC France. Member of the Nomination Committee and of the Remuneration Committee, HSBC France.

Other directorships in the HSBC Group:
Director, HSBC Bank plc (since March 2014). Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG.

Other directorship outside of the HSBC Group:
Chairman of the Board of Directors, Global Financial Markets Association (since May 2014).

Résumé:
Joined CCF in 1994 from Group Total, where he was Head of Treasury. At CCF, he was appointed Head of Markets in 1998. He joined HSBC in 2000 when the bank acquired CCF. Started at HSBC as Head of Global Markets at HSBC France and Head of Fixed Income Trading, Europe. In 2006, promoted to Head of Global Markets, Europe and Middle-East. In January 2008, he became Head of Global Markets and a Group General Manager in May 2008. On 1 January 2011, he was appointed Group Managing Director and a member of the Group Management Board. Since 22 November 2012, he has been Chairman of the Board of Directors of HSBC France.

Jean Beunardeau *Born in 1962*[2]
Holds 1 HSBC France share. First elected: 2008. Last re-elected: 2014. Term ends: 2017.

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

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

Other directorships outside of the HSBC Group:
Director, Institut de la Gestion Déléguée. Director and Treasurer, Fondation ESTP. Member of the Supervisory Board, Société Anonyme des Galeries Lafayette.

Andrew Wild *Born in 1970*[2]
Holds 1 HSBC France share. First elected: 2015. Term ends: 2016.

Principal position:
Deputy CEO, Deputy to the CEO, HSBC France (since 1 March 2015).
Head of Commercial Banking in France (since 2 February 2015).

1 *As far as their directorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.*
2 *Résumé available on page 12.*

Gilles Denoyel *Born in 1954*
Holds 1 HSBC France share. First elected: 2004. Last re-elected: 2014. Term ends: 2017.

Principal position:
President International Institutional Relations, Europe, HSBC Group (since 1 March 2015).

Other directorships in the HSBC Group:
Vice-Chairman of the Board, HSBC Assurances Vie (France). Director, HSBC Bank A.S. Director, HSBC Global Asset Management (France) (permanent representative of HSBC France). Directorship and functions expired on 1 March 2015: Deputy CEO, Deputy to the CEO, Chief Risk Officer, HSBC France.

Other directorships outside of the HSBC Group:
Director, Fonds de Garantie des Dépôts. Director, MEDEF (permanent representative of HSBC France). Director and Treasurer, Association Française des Banques. Chairman, Groupement des Banques Etrangères en France.
Directorship expired in 2014: Director, DCNS.

Résumé:
After a career in the French senior public service, he joined HSBC France in June 1996 as Chief Financial Officer. In 1998, he became Group General Secretary, put in charge of Logistics and Operations. From March 2000 to February 2004, he was appointed Senior Corporate Vice-President Finance. From March 2004 to 1 March 2015, he was appointed Deputy Chief Executive Officer of HSBC France, successively in charge of the support functions and the finance support services, then, in charge of the Asset Management activities, the Insurance activities and the non-finance support services and, finally, responsible for all risk management and control activities (Chief Risk Officer), and for relations with the regulatory supervisors. On 10 January 2012, he was appointed Deputy to the CEO. Since 1 March 2015, he has been President International Institutional Relations, Europe, HSBC Group.

Véronique Duquesne *Born in 1964*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2016.
Director elected by employees.

Principal position:
Middle-Office Manager KYC (“Know Your Customer”) Commercial Banking, HSBC France.

Résumé:
Joined HSBC France in 1986.

Michel Gauduffe *Born in 1959*
Holds 1 HSBC France share. First elected: 2008. Last re-elected: 2012. Term ends: 2016.
Director elected by employees.

Principal position:
Deputy Head of the Limoges branch, HSBC France.

Other directorships in the HSBC Group:
Deputy Chairman of the Board, Institution de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board, France Actionnariat Fonds.

Other directorship outside of the HSBC Group:
Director, APICIL-ARC.

Résumé:
Joined HSBC France in 1981.

Martine Gerow *Born in 1960*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2016.
Independent Director. Member of the Audit Committee and Member of the Risk Committee, HSBC France.

Principal position:
Executive Vice-President and Chief Financial Officer, Carlson Wagonlit Travel (since September 2014).

Résumé:
Internal Auditor at PPG Industries in France and in the USA (1983-1985) and Strategy Consultant within The Boston Consulting Group in New York until 1989. From 1989 to 2002, held various positions within the Strategy and Development Department of the Pepsico Group then Chief Financial Officer of Pepsico in France. From 2002 to 2007, Chief Financial Officer - Beverage Division then Group Financial Controller of the Danone Group. From 2008 to 2010, Chief Financial Officer of the Smithfield Group then Chief Financial Officer of the Campofrio Food Group. From 2010 to 2014, Executive Vice-President in charge of Finance, Purchasing and IT of Solocal Group. Since September 2014, Executive Vice-President and Chief Financial Officer of Carlson Wagonlit Travel.

Composition of the Board of Directors (continued)

Lindsay Gordon *Born in 1952*
Holds 1 HSBC France share. First elected: 2013. Last re-elected: 2013. Term ends: 2016.
Independent Director. Member of the Audit Committee and Member of the Risk Committee, HSBC France.

Other directorships:
Chancellor, University of British Columbia (since July 2014). Co-Chair, University of British Columbia Capital Campaign. Governor and Co-Founder, C.H.I.L.D. Foundation. Director, Clear Seas Centre for Responsible Marine Shipping (previously Centre of Excellence for Marine Transportation). Director, Export Development Canada (since April 2014). Director, Canadian Institute for Advanced Research (since October 2014).

Résumé:
British and Canadian nationality. He joined HSBC Bank Canada in 1987 and has served in various roles in Toronto and Vancouver including Senior Executive Vice-President, Chief Credit Officer, Senior Vice-President and Head of Special Credit, and Vice-President Toronto Commercial Banking. He was appointed Chief Operating Officer in December 1999 then President and Chief Executive Officer of HSBC Bank Canada from October 2003 to January 2013, date of his retirement.

Philippe Houzé *Born in 1947*
Holds 1 HSBC France share. First elected: 1999. Last re-elected: 2012. Term ends: 2016.
Independent Director. Chairman of the Nomination Committee and of the Remuneration Committee, HSBC France.

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

Other directorships[1]*:*
Deputy Chairman and Chief Executive Officer, Motier. Chairman, Motier Domaines (since July 2014). Director, iDbyMe. Director, Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Supervisory Committee, Bazar de l'Hôtel de Ville-B.H.V. Member of the Steering Committee, Union du Grand Commerce de Centre-Ville (UCV). Elected Member, Chambre de Commerce et d'Industrie de Paris. Censor, Groupe Carrefour (since October 2014). President of the Council, France INSEAD. Director, INSEAD (since January 2015). Chairman of the Governing Board, Novancia Business School. Deputy Chairman, Association Alliance 46.2 Entreprendre en France pour le Tourisme (since February 2014). Director, EXPOFRANCE 2025 (since February 2015). Directorships expired in 2014: Chairman, Union du Grand Commerce de Centre-Ville (UCV). Vice President, Fondation France INSEAD.

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

Alan Keir *Born in 1958*
Holds 1 HSBC France share. First elected: 2013. Term ends: 2016.

Principal position:
Member of the Group Management Board, HSBC Group. Chief Executive Officer, HSBC Bank plc.
Group Managing Director for the EMEA region (Europe, Middle-East, Africa).

Other directorships in the HSBC Group:
Director, HSBC Bank plc. Director, HSBC Bank Middle East Limited (since February 2014). Member of the Supervisory Board, HSBC Trinkaus & Burkhardt AG.

Résumé:
British nationality. He joined the HSBC Group in 1981. In 2003, he was appointed General Manager and Global Co-Head of the Group's Commercial Banking activities. He was appointed Group General Manager, Commercial Banking in 2006, then, in 2011, Global Head of Commercial Banking and also became a Group Managing Director and a member of the HSBC Group Management Board. Since October 2013, Alan Keir is Group Managing Director EMEA and Chief Executive Officer, HSBC Bank plc.

1 *For the most part, appointments held in companies which do not belong to the group in which the Director holds his principal position.*

Anne Méaux *Born in 1954*
Holds 1 HSBC France share. First elected: 2011. Term ends: 2015[1].
Independent Director.

Principal position:
Chairman, Image 7.

Other directorships:
Chairman, Com Sept Finance. Chairman, Anne Méaux Conseil. Member of the Advisory Committee, Women's Forum. Deputy Chairman, Association Force Femmes.

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

Thierry Moulonguet *Born in 1951*
Holds 1 HSBC France share. First elected: 2009. Last re-elected: 2013. Term ends: 2016.
Independent Director. Chairman of the Audit Committee and Chairman of the Risk Committee, HSBC France.

Other directorship in the HSBC Group:
Independent Director, Chairman of the Audit Committee (since October 2014) and Member of the Risk Committee, HSBC Bank plc.

Other directorships outside of the HSBC Group:
Chairman and Chief Executive Officer, Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board, Webedia. Director, Fimalac. Director, Fitch Rating Group Inc. Director, Groupe Lucien Barrière. Director, Valéo.

Résumé:
After having held several positions in the French public service, he joined the Finance Department of Renault in 1991. From 1999 to 2003, Senior Vice-President, Chief Financial Officer, Member of the Executive Committee and of the Board of Directors of Nissan. Until 30 June 2010, Executive Vice-President and Chief Financial Officer of the Renault Group, and then, until 31 March 2011, Director and Special Adviser to the President of the Renault-Nissan Alliance.

Philippe Pontet *Born in 1942*[2]
Holds 1 HSBC France share. First elected: 2005. Last re-elected: 2011. Term ends: 2015[1].

Principal position:
Chairman Investment Banking, HSBC France.

Other directorship in the HSBC Group:
Director, Valeurs Mobilières Elysées.

Guillaume Praud *Born in 1976*
Holds 1 HSBC France share. First elected: 2012. Term ends: 2016.
Director elected by employees.

Principal position:
Head of the branch Premier International Direct, HSBC France.

Résumé:
Joined HSBC France in 2000.

Philippe Purdy *Born in 1958*
Holds 1 HSBC France share. First elected: 2004. Last re-elected: 2012.Term ends: 2016.
Director elected by employees.

Principal position:
Sales representative, Mandelieu branch, HSBC France.

Résumé:
Joined HSBC France in 1982.

1 *Director standing for re-election at the Annual General Meeting to be held on 23 April 2015.*
2 *Résumé available on page 12.*

Composition of the Board of Directors (continued)

Antonio Simoes *Born in 1975*
Holds 1 HSBC France share. First elected: 2012. Last re-elected: 2012. Term ends: 2016.

Principal position:
Deputy Chief Executive, HSBC Bank plc and Chief Executive Officer of United Kingdom (since June 2014).

Other directorships in the HSBC Group:
Director, HSBC Bank plc. Director, HSBC Bank A.S.

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

Brigitte Taittinger *Born in 1959*
Holds 1 HSBC France share. First elected: 2008. Last re-elected: 2012. Term ends: 2016.
Independent Director.

Principal position:
Director of Strategy and Development at Sciences Po, Paris.

Other directorships:
Vice-President of the Board of Directors, Festival d'Aix-en-Provence. Member of the Board of Directors, Centre Georges Pompidou. Director, Groupe Fnac.

Résumé:
Advertising Manager for Publicis from 1984 to 1988. Marketing Department of Groupe du Louvre from 1988 to 1991. Chairman and CEO of Annick Goutal from 1991 to 2012. From April 2013, Director of Strategy and Development at Sciences Po, Paris.

Jacques Veyrat *Born in 1962*
Holds 1 HSBC France share. First elected: 2009. Last re-elected: 2013.Term ends: 2016.
Independent Director. Member of the Nomination Committee and of the Remuneration Committee, HSBC France.

Principal position:
Chairman, Impala SAS.

Other directorships:
Chairman, Impala Holding. Director, Groupe Fnac. Director, Nexity. Member of the Supervisory Board, Eurazeo.
Member of the Supervisory Board, Neoen. Member of the Board of Directors, Cameron France Holding SAS. Censor, Sucres et Denrées (since October 2014). Directorships expired in 2014: Director, Imerys. Member of the Supervisory Board, Sucres et Denrées.

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

Directorships held[1] by the members of the Board of Directors (composition at 1 March 2015)

Information as at 31 December of each year from the year of appointment to the HSBC France Board of Directors.

Director's name Principal position	First elected	Term ends	2014	2013	2012	2011	2010
Samir Assaf Member of the Group Management Board. Chief Executive Officer, Global Banking and Markets, HSBC Group. Chairman of the Board of Directors, HSBC France.	2012	2016	Directorships in the HSBC Group: Chairman of the Board of Directors, HSBC France. Director: HSBC Bank plc. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG. Directorship outside of the HSBC Group: Chairman of the Board of Directors: Global Financial Markets Association.	Directorships in the HSBC Group: Chairman of the Board of Directors: HSBC France. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	Directorships in the HSBC Group: Chairman of the Board of Directors: HSBC France. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	–	–
Jean Beunardeau Chief Executive Officer, HSBC France. Head of Global Banking and Markets, France. Group General Manager, HSBC Group.	2008	2017	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France. Chairman of the Board: HSBC Global Asset Management (France). Director: Valeurs Mobilières Elysées, HSBC Assurances Vie (France). Directorships outside of the HSBC Group: Director: Institut de la Gestion Déléguée. Director and Treasurer: Fondation ESTP.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Director: Valeurs Mobilières Elysées, HSBC Global Asset Management (France) (permanent representative of HSBC France), HSBC Real Estate Leasing (France). Directorships outside of the HSBC Group: Chairman: X-Banque. Director: Institut de la Gestion Déléguée.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Board: Foncière Elysées. Director: Nobel, HSBC Global Asset Management (France) (permanent representative of HSBC France), HSBC Real Estate Leasing (France). Directorships outside of the HSBC Group: Chairman: X-Banque. Director: Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée.

1 *For the most part, appointments held in companies which do not belong to the group in which the Director holds his principal position.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	2014	2013	2012	2011	2010
Gilles Denoyel President International Institutional Relations, Europe, HSBC Group (since 1 March 2015).	2004	2017	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: HSBC Bank A.S., HSBC Global Asset Management (France) (permanent representative of HSBC France). Directorships outside of the HSBC Group: Director: Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Director and Treasurer: Association Française des Banques. Chairman: Groupement des Banques Etrangères en France.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: HSBC Bank A.S., HSBC Global Asset Management (France) (permanent representative of HSBC France). Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Director and Treasurer: Association Française des Banques. Chairman: Groupement des Banques Etrangères en France.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: HSBC Assurances IARD (France), HSBC Bank A.S., HSBC Global Asset Management (France) (permanent representative of HSBC France). Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Director and Treasurer: Association Française des Banques. Chairman: Groupement des Banques Etrangères en France.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: HSBC Assurances IARD (France), HSBC Global Asset Management (France). Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Treasurer: Association Française des Banques.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman of the Board: HSBC Assurances Vie (France). Director: Halbis Capital Management (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Treasurer: Association Française des Banques.
Véronique Duquesne Middle-Office Manager KYC Commercial Banking, HSBC France.	2012	2016	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	–	–

Director's name Principal position	First elected	Term ends	**2014**	2013	2012	2011	2010
Michel Gauduffe Deputy Head of the Limoges branch, HSBC France.	2008	2016	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board: France Actionnariat Fonds. Directorship outside of the HSBC Group: Director: APICIL-ARC.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board: France Actionnariat Fonds. Directorship outside of the HSBC Group: Director: APICIL-ARC.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Prévoyance Vernet, Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board: France Actionnariat Fonds. Directorship outside of the HSBC Group: Director: APICIL-ARC.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Prévoyance Vernet, Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Member of the Supervisory Board: France Actionnariat Fonds. Directorship outside of the HSBC Group: Director: AGIRA.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Vice-Chairman of the Board: Institution de Prévoyance Vernet, Institut de Gestion des Retraites Supplémentaires de la Caisse de Retraites HSBC France. Directorship outside of the HSBC Group: Director: AGIRA.
Martine Gerow Executive Vice-President and Chief Financial Officer, Carlson Wagonlit Travel.	2012	2016	Directorship in the HSBC Group: Independent Director: HSBC France.	Directorship in the HSBC Group: Independent Director: HSBC France.	Directorship in the HSBC Group: Independent Director: HSBC France.	–	–
Lindsay Gordon Company Director.	2013	2016	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chancellor: University of British Columbia. Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Clear Seas Centre for Responsible Marine Shipping, Export Development Canada, Canadian Institute for Advanced Research.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Co-Chair: University of British Columbia Capital Campaign. Governor and Co-Founder: C.H.I.L.D. Foundation. Director: Centre of Excellence for Marine Transportation.	–	–	–

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2014**	2013	2012	2011	2010
Philippe Houzé Chairman of the Management Board, Groupe Galeries Lafayette.	1999	2016	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Deputy Chairman and Chief Executive Officer: Motier. Chairman: Motier Domaines. Director: iDbyMe, Fondation d'entreprise Galeries Lafayette (Founders College). Member of the Steering Committee: Union du Grand Commerce de Centre-Ville (UCV). Elected member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: Bazar de l'Hôtel de Ville-B.H.V. Censor: Groupe Carrefour. President of the Council: France INSEAD. Chairman of the Governing Board: Novancia Business School. Deputy Chairman: Association Alliance 46.2 Entreprendre en France pour le Tourisme.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected Member: Chambre de Commerce et d'Industrie de Paris. Member of the Supervisory Committee: Bazar de l'Hôtel de Ville-B.H.V. President of the Council: Insead France. Chairman of the Governing Board: Novancia Business School.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected Member: Chambre de Commerce et d'Industrie de Paris.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino, Guichard-Perrachon. Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected Member: Chambre de Commerce et d'Industrie de Paris.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino, Guichard-Perrachon. Chairman: Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors: National Retail Federation (NRF-USA). Elected Member: Chambre de Commerce et d'Industrie de Paris.
Alan Keir Chief Executive Officer, HSBC Bank plc. Member of the Group Management Board, HSBC Group.	2013	2016	Directorships in the HSBC Group: Director and CEO: HSBC Bank plc. Director: HSBC France, HSBC Bank Middle East Limited. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	Directorships in the HSBC Group: Director and CEO: HSBC Bank plc. Director: HSBC France. Member of the Supervisory Board: HSBC Trinkaus & Burkhardt AG.	–	–	–

Director's name Principal position	First elected	Term ends	**2014**	2013	2012	2011	2010
Anne Méaux Chairman, Image 7.	2011	2015[1]	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Com Sept Finance, Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femme.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Image 8, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Image 8, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Image 7, Com Sept Finance. Managing Director: Anne Méaux Conseil. Member of the Advisory Committee: Women's Forum. Deputy Chairman: Association Force Femmes.	–
Thierry Moulonguet Company Director.	2009	2016	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valéo.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Chairman and Chief Executive Officer: Revue Des Deux Mondes. Vice-Chairman of the Supervisory Board: Webedia. Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valéo.	Directorships in the HSBC Group: Independent Director: HSBC France, HSBC Bank plc. Directorships outside of the HSBC Group: Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, Valéo.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Fimalac, Fitch Rating Group Inc, Groupe Lucien Barrière, SsangYong Motor Co. Ltd, Valéo.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Fimalac, Fitch Rating Group Inc.
Philippe Pontet Chairman Investment Banking, HSBC France.	2005	2015[1]	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Valeurs Mobilières Elysées.	Directorships in the HSBC Group: Director: HSBC France, Nobel.
Guillaume Praud Head of the branch Premier International Direct, HSBC France.	2012	2016	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	–	–
Philippe Purdy Sales representative, Mandelieu branch, HSBC France.	2004	2016	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.

1 *Director standing for re-election at the Annual General Meeting to be held on 23 April 2015.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2014**	2013	2012	2011	2010
Antonio Simoes Deputy Chief Executive, HSBC Bank plc and Chief Executive Officer of United Kingdom.	2012	2016	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc, HSBC Bank A.S.	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc, HSBC Bank A.S.	Directorships in the HSBC Group: Director: HSBC France, HSBC Bank plc, HSBC Bank A.S.	–	–
Brigitte Taittinger Director of Strategy and Development at Sciences Po, Paris.	2008	2016	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Vice-President of the Board of Directors: Festival d'Aix-en-Provence. Member of the Board of Directors: Centre Georges Pompidou. Director: Groupe Fnac.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Ensemble Orchestral de Paris, Opéra Comique, Groupe Fnac.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Director: Ensemble Orchestral de Paris, Opéra Comique.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman and CEO: Annick Goutal. Director: Ensemble Orchestral de Paris, Opéra Comique.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman and CEO: Annick Goutal. Director: Ensemble Orchestral de Paris, Opéra Comique.
Jacques Veyrat Chairman, Impala SAS.	2009	2016	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Director: Groupe Fnac, Nexity. Member of the Board of Directors: Cameron France Holding SAS. Member of the Supervisory Board: Eurazeo, Neoen. Censor: Sucres et Denrées.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman: Impala SAS, Impala Holding. Director: Imerys, Groupe Fnac, Nexity. Member of the Supervisory Board: Eurazeo, Neoen, Sucres et Denrées.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman Impala SAS. Director: Poweo Direct Energie, Imerys, ID Logistics Group. Member of the Supervisory Board: Eurazeo.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman Impala SAS. Director: Direct Energie, Imerys, ID Logistics Group, Poweo. Member of the Supervisory Board: Eurazeo.	Directorship in the HSBC Group: Independent Director: HSBC France. Directorships outside of the HSBC Group: Chairman and CEO: Louis Dreyfus SAS. Director: Direct Energie, Imerys. Member of the Supervisory Board: Eurazeo. Chairman of the Supervisory Board: Kurosawa BV.

Chairman's report on corporate governance and internal control and risk management procedures

Under article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors of any French company issuing financial instruments admitted for trading on a regulated market is required to report to shareholders annually on the composition of the Board of Directors and on the application of the principle of balanced representation of men and women on the Board, the preparation and organisation of the Board's work, the internal control and risk management procedures and any restrictions on the powers of the Chief Executive Officer. This report is attached to the report referred to in articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26.

I am pleased to present my report in this respect for the year ended 31 December 2014. Management is responsible for defining and implementing adequate and effective internal control and risk management procedures with oversight by the Board of Directors. This report has been drawn up in close collaboration with the main divisions concerned and in association with the Statutory Auditors.

The first part of this report, regarding corporate governance, was submitted to the Nomination Committee on 30 January 2015 and the second part, on internal control and risk management procedures to the Audit Committee and to the Risk Committee, on 5 February 2015. The Board then approved the whole report on 6 February 2015.

The internal control and risk management regulations and procedures described herein apply to HSBC France and to all its consolidated subsidiaries.

CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE

Corporate Governance Code

In accordance with the requirements under article L. 225-37 of the French Commercial Code, it is stated that the Corporate governance code to which HSBC France refers, as a priority, is the Corporate Governance Code for listed companies (updated in June 2013), published by the AFEP and the MEDEF, while taking account of its status as an unlisted subsidiary. This code is available on the websites of AFEP (www.afep.com) and MEDEF (www.medef.com).

The HSBC Group attaches a great deal of importance to respecting corporate governance rules, both for itself and for its subsidiaries. However, as HSBC France is a 99.9 per cent owned subsidiary of the HSBC Group and as its capital securities are not admitted to trading on a regulated market, some principles of the Corporate Governance Code have been adapted as for example some of the duties of the Nomination and Remuneration Committee.

HSBC France's Board of Directors therefore no longer decides on share award plans as the shares awarded to HSBC France employees are now HSBC shares. HSBC France applies the British corporate governance rules (the UK Corporate Governance Code) referred to by parent company HSBC Holdings plc in certain areas, in particular as regards to share awards.

Other exceptions to the compliance with the Corporate Governance Code's recommendations for listed companies are specified below in this Report.

In addition, at its meeting of 14 February 2014, HSBC France's Board of Directors adopted the Corporate Governance Code for HSBC Group companies, which aims to provide consistent and high standard corporate governance practices throughout the HSBC Group. It should be noted that none of the provisions of this Code contradict the AFEP MEDEF Code. All HSBC France subsidiaries regulated by the *Autorité de contrôle prudentiel et de résolution* or the *Autorité des marchés financiers* adopted this Code during 2014.

Board of Directors

Composition of the Board

At 31 December 2014, the Board of Directors had 18 members, including:

– the Chairman of the Board of Directors; the Chief Executive Officer; the Deputy Chief Executive Officer;

– the Chairman Investment Banking of HSBC France; the Chief Executive Officer and the Deputy Chief Executive Officer of HSBC Bank plc;

– eight Directors having no special relationship with the company and who may be deemed independent with respect to all criteria defined in the AFEP MEDEF Code, particularly regarding banking relationships; however, one of their numbers has been serving as a Director for more than twelve years. Nonetheless, the Board of Directors found that this criterion alone did not call into question his independence of judgement *vis-à-vis* the company, even though it constitutes an exception to the criteria defined in the AFEP MEDEF Code;

– four Directors elected or re-elected by the employees in 2012 for a term of four years, in accordance with the provisions of the French order of 21 October 1986.

The Board includes four different nationalities. Other than the Directors elected by employees, the Board comprises three women and eleven men. The average age of the Directors in office is 56.5.

A representative of the Central Works Council attends Board meetings, without voting rights.

In accordance with the recommendations of the AFEP MEDEF Code, the Nomination and Remuneration Committee reviewed the position of the Directors whose term of office expired at the AGM on 9 May 2014, and proposed that the Board vote to re-appoint them, taking into account their performance, skills and active contribution to the work done by the Board. At the AGM held on 9 May 2014, the shareholders re-elected Jean Beunardeau and Gilles Denoyel as Directors for a further term of three years. They were re-appointed, respectively, as Chief Executive Officer and Deputy Chief Executive Officer at the Board meeting held on 9 May 2014 immediately after the AGM.

Chairman's report on corporate governance and internal control and risk management procedures (continued)

At its meeting of 18 November 2014, the Board of Directors formally acknowledged the resignation of Peter Shawyer as Director and member of the Audit and Risk Committee effective 31 December 2014, and, at its meeting of 20 January 2015, co-opted Andrew Wild as Director to replace him. This co-optation will be subject to ratification at the AGM to be held on 23 April 2015.

The Directors' terms of office have been three years since the Combined General Meeting held on 30 April 2013.

Board meeting of 20 January 2015

As Gilles Denoyel, Deputy CEO of HSBC France, has been called to fulfill other functions within the HSBC Group from 1 March 2015, the Board of Directors appointed, at its meeting held on 20 January 2015, Andrew Wild as Deputy CEO and Deputy to the CEO from 1 March 2015 and as a Director of HSBC France from 2 February 2015.

Directors' training and information

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

Upon their initial election, new Directors receive an information pack on HSBC France, including legal information about the company and the role of directors, as well as the latest registration document and minutes of Board meetings for the past twelve months. In addition, the Company Secretary organises a programme of working meetings with the main executives in the business lines and functions. These meetings are also open to Directors already in office.

In 2014, all Directors were invited to a half-day meeting during which the heads of HSBC France business lines presented their strategy.

The Board's work in 2014

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

The Board of Directors met four times during 2014, with an average attendance rate of 94.4 per cent compared with 94.1 per cent in 2013:

- 14 February 2014 (attendance rate: 88.9 per cent),
- 9 May 2014 (attendance rate: 94.4 per cent),
- 25 July 2014 (attendance rate: 100 per cent),
- 18 November 2014 (attendance rate: 94.4 per cent).

In 2014, the Board of Directors reviewed the quarterly, half-yearly and annual financial statements and approved the half-yearly and annual accounts. During each meeting, the Board reviewed the operations, financial results, trends in costs and balance sheet of HSBC France. For each period considered, the Board heard the External Auditors' opinion, who are invited to attend all Board meetings. At the meeting held on 14 February 2014, it approved the budget and the risk appetite for 2014. The Board reviewed the updated liquidity contingency plan (meeting on 25 July 2014).

The Board of Directors was informed of trends in regulatory capital and ratios, in particular liquidity, capital adequacy and leverage, as well as the impacts of the various regulatory developments in these areas, especially on revenue and the balance sheet. At each of these meetings, the Board received a report on the funding position and trends in medium and long-term debt.

At each of its meetings, the Board of Directors examined the group's revenue, results, business growth and position for each of its activities, with a detailed development of the strategy of a different business line at each meeting. A specific presentation on service quality in Retail Banking was given at the meeting of 14 February 2014. The Board also took part in the annual consultation of the Works Council on the company's strategic direction, as required under law no. 2013-504 of 14 June 2013 on employment protection.

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

At each meeting, the Board of Directors was updated on the progress and results of the Comprehensive assessment conducted by the European Central Bank (ECB), which results were published on 26 October 2014. Moreover, it examined the group's situation with regard to risks: credit risk, market risk, as well as litigation, tax risk, compliance, operational risks and security and fraud risk. It approved the group's risk appetite (meeting on 14 February 2014) and, at each meeting, reviewed a dashboard used to assess performance and various indicators in light of the risk level accepted by the Board. Given the many latest developments, it was informed, at each of its meetings, of the main regulatory changes and of their impacts on HSBC France, and in particular the French law on separation and regulation of banking activities, European texts CRDIV and CRR, and HSBC France's supervision by the European Central Bank as of November 2014. Developments in the enquiries initiated by various authorities as regards suspected manipulation of interbank rates were discussed in detail at each Board meeting.

At its meeting on 9 May 2014, the Board reviewed the Annual Report prepared in accordance with articles 42, 43 and 43-1 of regulation 97-02, sent to the *Autorité de* *contrôle prudentiel et de résolution*. It was kept informed of audits and investigations carried out by various regulatory authorities, in particular the *Autorité de contrôle prudentiel et de résolution* and the *Autorité des marchés financiers*, along with their findings, follow-up letters received, and replies from HSBC France. It approved the Board report and the Chairman's report on corporate governance and internal control and risk management procedures for 2013 (meeting on 14 February 2014) and the interim Board report as at 30 June 2014 (meeting on 25 July 2014). It also examined the mediator's report concerning her activity during 2013 (meeting on 9 May 2014). The Board approved HSBC France recovery plan (meeting on 9 May 2014).

At each meeting, the CEO and the Chairman of the Audit and Risk Committee commented on the Internal Audit work, in particular audit reports graded "needs improvement" and/or "not satisfactory" and changes in the number of open recommendations and in Internal Audit's organisation and methodology.

The work of the Board Committees was set out in periodic, detailed reports from their respective Chairmen and was debated during Board meetings. Within this framework, the Board was kept informed about the main topics discussed and points of action identified by the Audit and Risk Committee, particularly with regards to risks, control and risk management system, internal audit, compliance and permanent control.

Apart from these major issues, the Board also discussed various other issues which are legally its responsibility.

Board committees

Nomination and Remuneration Committee

Composition of the Nomination and Remuneration Committee

Chairman:

– Philippe Houzé (independent) — Appointed 1999 and 2009 as Chairman

Members:

– Jacques Veyrat (independent) — Appointed 2010

– Samir Assaf — Appointed 2012

In 2012, the Board appointed Samir Assaf as a member of the Nomination and Remuneration Committee, because although he is Chairman of the Board of Directors, he is not an executive officer of HSBC France and receives no remuneration or directors' fees from HSBC France for serving in his capacity as Chairman of the Board. The Board therefore considered him to be independent for purposes of giving his opinion on HSBC France's remuneration policy and discussing the remuneration of its Executive Directors. Moreover, he lends the Committee his experience in the area of compensation of financial market professionals, among others, and his knowledge of the rules defined by the HSBC Group. He can also make valuable contributions in drawing up succession plans for the management team.

The Nomination and Remuneration Committee's missions

The Committee's main tasks are as follows:

– to consider remuneration matters for HSBC France and its subsidiaries in the context of the HSBC Group's remuneration policy and in compliance with local rules, and to provide advice to the Board of HSBC France and to the Group Remuneration Committee on the remuneration policy and structure relevant to HSBC France based on the regulatory context and market conditions. In particular, the Committee makes recommendations and proposals to the Board concerning remuneration, pension and health insurance plans, additional retirement plans, benefits in kind, and other emoluments of Executive Directors;

– to review annually the policy for the compensation of employees prepared in accordance with regulation 97-02 and the French Monetary and Financial Code, particularly risk takers, employees exercising a control function and any employee with similar compensation levels, whose activities have a significant impact on the Company's risk profile, financial markets professionals whose activities may have a significant impact on the Company's risk exposure;

– to propose the fees for directors for approval by the Board and the Shareholders' General Meeting;

– to review and approve any statement required by HSBC France's regulators on the remuneration policy. In particular the Committee reviews the report prepared in accordance with Article 43-1 of regulation 97-02 and the chapter of the Chairman's report regarding governance and remuneration;

– to seek confirmation from the Audit and Risk Committee or Chief Risk Officer, that risk appetite was aligned with performance objectives set in the context of incentive packages;

– to review regularly the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board and Board Committees and make recommendations to the Board concerning the appointment or renewal of any director and membership of Board Committees;

– to prepare any question regarding corporate governance for the Board's consideration;

– to conduct the evaluation of the Board of Directors;

– to assess the independence of non-executive directors;

– to review and monitor the training and continuous professional development of directors; and

– to satisfy itself that plans are in place for orderly succession to senior management positions within HSBC France.

The Committee's recommendations on Executive Directors' remuneration are presented to the Board after prior approval by the Remuneration Committee of HSBC Holdings plc or are then submitted for approval.

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

The Nomination and Remuneration Committee's work in 2014

The Committee met three times in 2014, with an attendance rate of 100 per cent. Its main work was as follows:

- it made proposals to the Board on renewing the term of office of two Directors at the Annual General Meeting. A proposal was made to renew the term of office as Director and Chief Executive Officer and Deputy CEO respectively of Jean Beunardeau (Director since 2008 and Chief Executive Officer since 2012) and Gilles Denoyel (Director and Deputy Chief Executive Officer since 2004) (meeting on 13 February 2014);
- it reviewed each Director's independence on the basis of the criteria defined in the AFEP MEDEF Code, to which HSBC France refers, but also of criteria regarding skills, independence of thought and involvement (meeting on 13 February 2014);
- it reviewed the composition of the Board, particularly following the resignation of Peter Shawyer as Director effective 31 December 2014 and in light of the amendments introduced by article 67 of law no. 2014-873 of 4 August 2014 on gender balance on corporate boards. This work will be used to make proposals to the Board of Directors in 2015 (meeting on 17 November 2014);
- it made proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the remuneration of Jean Beunardeau and Gilles Denoyel, in respect of 2013 and 2014 years and setting out the fixed and variable elements of their remuneration and the number of shares to be awarded to them (see section "Executive Directors' compensation") (meetings on 13 February and 17 November 2014);
- it reviewed the 20 highest remunerations in respect of 2013 and 2014 years (meetings on 13 February and 17 November 2014);
- it reviewed HSBC's general remuneration policy in France, in respect of 2013 and 2014 years, taking into account regulations concerning in particular risk control and the contribution of the Risk and Compliance functions to the process for determining variable compensations as well as the list of employees identified as not entirely complying with the risk and compliance rules and impacts on their remuneration (meetings on 13 February and 17 November 2014);
- it reviewed the first part of the Chairman's report on corporate governance (meeting on 13 February 2014);
- it made proposals to the Board on the adoption of the Corporate Governance Code for HSBC Group companies and its implementation by HSBC France and its subsidiaries (meetings on 13 February and 17 November 2014);
- it reviewed the impacts of the CRD IV package in order to make proposals to the Board, in particular as regards remuneration and multiple directorship rules (meeting on 6 May 2014);
- it made proposals to the Board on updating the Board's internal rules, in particular to include the terms of reference set by the HSBC Group's Remuneration Committee for remuneration committees of its subsidiaries (meeting on 13 February 2014);
- it proposed to the Board to carry out an assessment of the Board of Directors at end-2014, the results of which will be presented to the Board during the first half of 2015 (meeting on 17 November 2014);
- it examined the process for reviewing succession plans (meeting on 6 May 2014).

The Chairman of the Nomination and Remuneration Committee reported to the Board on its work at the Board meetings on 14 February, 9 May and 18 November 2014. All of the Committee's work was submitted to the Board for approval.

Audit and Risk Committee

Composition of the Audit and Risk Committee

Chairman:

- Thierry Moulonguet (independent) — Appointed 2009 and 2010 as Chairman

Members:

- Martine Gerow (independent) — Appointed 2012
- Lindsay Gordon (independent) — Appointed February 2013
- Peter Shawyer (independent) — Appointed 2005, Until 31 December 2014

The four Committee members are highly qualified in the areas of finance and accounting, in risk analysis and in internal control, as they serve or have in the past served in the capacity of audit committee member, finance director, auditor or Chairman and Chief Executive Officer of a bank.

The Audit and Risk Committee's missions

The Audit and Risk Committee's main duties were reviewed, for the last time, in February 2014 and are defined in the Board's internal rules.

The Committee is responsible for assisting the Board by overseeing audit and risk matters:

- key responsibilities in relation to audit:
  - examining the integrity of the financial statements submitted to the Board of Directors in order to ensure that the data and information provided give a true and fair view of the company's operations and position,
  - reviewing financial and accounting policies and practices,
  - reviewing and discussing with management the effectiveness of internal control systems relating to financial reporting,
  - monitoring and reviewing the effectiveness of the Internal Audit function, considering the major findings of internal investigations and management's response, and ensuring that the Internal Audit function is adequately resourced and has appropriate positioning,
  - discussing with the Statutory Auditors the financial statements, the scope of audits,

restatements made, compliance with accounting principles, market rules, legal and regulatory requirements, and the impact of any changes in accounting principles and practices,
  - making recommendations to the Board of Directors regarding the appointment, renewal or removal of the Statutory Auditors, their fees and any other issues concerning their duties,
  - assessing the independence and objectivity of the Statutory Auditors, including supervision of the turnover of the signing partners and the effectiveness of the audit process,
  - applying the code of conduct and the HSBC Group policy concerning the provision of non-audit services by the Statutory Auditors,
  - reviewing the Statutory Auditors' management letter together with management's response to it, and to monitor the implementation of recommendations made in the letter,
  - ensuring compliance of the company and its subsidiaries with directives issued by the supervisory authorities and with regulations applicable to them;
- key responsibilities in relation to risk:
  - overseeing and advising the Board on all high-level risk related matters,
  - advising the Board on risk appetite and tolerance in determining strategy,
  - advising the Board and/or the Nomination and Remuneration Committee on alignment of remuneration with risk appetite,
  - examining regular reports on risk management related to the group's activity, the way in which risks are controlled and monitored by management, and on emerging risks,
  - examining the effectiveness of the group's risk management framework internal control systems,
  - approving the appointment and removal of the Chief Risk Officer and ensuring his effective role,
  - reviewing any issue which arises from any report from Internal Audit, the Statutory Auditors' annual report and any queries raised by the Statutory Auditors, and responses from management, which relates to the management of risk or internal control,
  - examining management's reports and statements on the internal control system.

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

To give itself sufficient time to review the accounts before they are reviewed by the Board, the Audit and Risk Committee generally meets a few days before the Board.

As required under the HSBC Group rules, the Audit and Risk Committee provides a half-yearly certificate to the Audit Committee Chairman of HSBC Bank plc, HSBC France's direct shareholder, confirming, in particular, that the accounts were reviewed by the Committee and that the internal control system of financial reporting appears to be appropriate. The certificate is based on work done by HSBC France's Audit and Risk Committee as well as the certificates signed by the Chairmen of the Audit and Risk Committees of HSBC France's subsidiaries.

The Audit and Risk Committee's work in 2014

The Audit and Risk Committee met seven times in 2014, with an attendance rate of 96.4 per cent, compared with 100 per cent in 2013:

- 11 February 2014 (attendance rate: 75 per cent);
- 7 May 2014 (attendance rate: 100 per cent);
- 27 May 2014 (attendance rate: 100 per cent);
- 10 June 2014 (attendance rate: 100 per cent);
- 25 June 2014 (attendance rate: 100 per cent);
- 23 July 2014 (attendance rate: 100 per cent);
- 14 November 2014 (attendance rate: 100 per cent).

Each meeting was also attended by the Statutory Auditors, the Deputy CEO in charge of risk, the Chief Financial Officer, the Chief Accounting Officer and the Head of Audit. The Chief Executive Officer attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. Audit and Risk Committee Chairman or members also met with the Statutory Auditors in private sessions prior to three out of the four quarterly Board meetings (meetings on 11 February, 7 May and 23 July 2014).

In 2014, the Committee devoted a large part of its time to the comprehensive assessment performed by the European Central Bank, the results of which were published on 26 October 2014, and to HSBC France's contribution to the Prudential Regulation Authority's stress tests of the HSBC Group. Apart from a detailed review of progress in this work and its outcome at each of the quarterly meetings, the Committee also held three meetings (on 27 May, 10 June and 25 June 2014) devoted to the stress tests performed by the European Banking Authority and the Prudential Regulation Authority. At these meetings, it reviewed and validated the macro-economic assumptions used and their impacts on activity, the balance sheet, the income statement and credit and market risk, by business line and for HSBC France as a whole, and on ratios.

Once again in 2014, the Committee paid careful attention to developments in the regulatory environment in which HSBC France operates and its impacts. Its work focused mainly on:

- the law on segregation and regulation of banking activities of July 2013, and similar laws on banking structure adopted or proposed in other countries;
- the European CRD IV directive and CRR regulation of July 2013 ("CRD IV package") implementing in European law the "Basel III" provisions, which aim to strengthen the level and quality of capital (tier one and core tier one), introduce a leverage ratio, improve

management of liquidity risk through two new liquidity ratios (one-month liquidity coverage ratio and one-year net stable funding ratio) and strengthen prudential requirements as regards to counterparty risk;

– developments in banking supervision with the introduction of the single supervisory mechanism on 4 November 2014 and the establishment of a single resolution fund.

At its meeting of 14 November 2014, the Committee was given a specific presentation on regulatory developments in capital management.

In each of its meetings, the Audit and Risk Committee continued to review risks with each of the persons in charge of managing these risks, in particular:

– credit risk, with an individual review of major exposures, changes in credit outstandings and non performing advances by business, changes in and optimisation of risk-weighted assets and evolution in cost of risk and exposures and sectors on the worry list;
– market risk, including market risk trends compared with limits, changes in exposures, the fixing of limits, changes in risk-weighted assets of market activities and the results of the stress tests conducted on market risk. At each meeting, the Committee was informed of discussions regarding market risk with regulators. The Committee was informed regularly of trends in the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA);
– legal and litigation risks;
– operational risks, including IT operational risks;
– security and fraud risk, including information security and business continuity.

The Committee was informed, at each of its meetings, of the progress of the work undertaken by the Operational Risk and Internal Control Department and of operational losses that occurred during the quarter. The Committee was informed of the operational risk transformation project (meetings on 23 July and 14 November 2014). In accordance with regulation 97-02, the Committee was informed of essential outsourced services governance, whether they are outsourced within the HSBC Group or to external providers, as well as the list of essential services externally outsourced and the results of controls carried out (meeting on 14 November 2014).

The Committee approved HSBC France risk appetite for 2014 (meeting on 11 February 2014) and then examined, at each of its meetings, the monitoring dashboard, particularly the indicators failing to comply with the established objectives. At each of its meetings, it reviewed the risk map and main and emerging risks, and their assessment, as well as the action plans implemented.

At its request, the Committee was given specific presentations on the organisation of the Human Resources department and HR risks (meeting on 11 February 2014) and on tax risks (meeting on 23 July 2014).

In accordance with regulation 97-02 and professional standards, the Committee reviewed, at its meetings on 11 February 2014 in respect of 2013 and on 14 November 2014 in respect of 2014, the links between risk and remuneration in the remuneration policy, and in particular, the involvement of Risk functions in remuneration policy and taking account of risks in determining remunerations.

At its meeting on 7 May 2014, it reviewed the Annual Report to the *Autorité de contrôle prudentiel et de résolution* on internal control, prepared in accordance with regulation 97-02.

In the areas of permanent control, compliance, periodic control, and relations with the regulatory authorities, the Audit and Risk Committee looked at the results of controls conducted on financial statements. Within this framework, it reviewed the work carried out as part of the application of Sarbanes Oxley: the list of procedures concerned and its development, identified weaknesses, their impact and monitoring. It reviewed the points raised in the account controls certificates and by accounting assurance reviews, as well as in the Statutory Auditors' management letters, along with the remediation plans. The Committee also verified the adequacy of provisions for identified risks.

At each of its meetings, the Committee was informed of progress in internal control plans and the main identified areas of weakness, as well as the corresponding action plans.

It was informed in detail, at each meeting, of Internal Audit work and reviewed the main audit assignments, particularly those adversely rated. It paid particular attention to audit recommendations implementation It was informed of trends in Internal Audit staff number in 2013 and approved the new audit charter and the 2014 annual audit plan (meeting on 11 February 2014). Finally, the Committee was systematically informed of salient points discussed by the audit and risk committees of HSBC France subsidiaries.

At each of its meetings, the Committee was informed of progress in implementing the new Compliance function organisation, which is now divided into two separate functions, Financial Crime Compliance and Regulatory Compliance, supported by a common business management department. The Committee reviewed quarterly compliance reports, which state the main new Financial Crime and Regulatory Compliance issues and those already discussed at previous meetings.

In Financial Crime Compliance, as well as information about systems and the application of international sanctions, at each of its meetings the Committee was informed of progress in the Global Standards program, one of the HSBC Group's three strategic priorities, which aims to implement the highest standards of financial crime compliance consistently across the whole of the HSBC Group. At its meeting of 11 February 2014, the financial crime compliance system was presented to the Committee in detail.

In Regulatory Compliance, the Committee was informed of the HSBC Group's conduct risk program, currently being rolled out by the various business lines and functions. Conduct risk is the risk of being unable to treat customers fairly and/or of disrupting the integrity and transparency of the financial markets. At its request, a presentation was given to the Committee on customer satisfaction and service quality in Retail Banking and Wealth Management (meeting on 7 May 2014). Reports issued to regulators were presented to the Committee: Annual Report on the compliance of investment services providers for 2013 and on the protection of clients' assets for the *Autorité des marchés financiers* (meeting on 23 July 2014), questionnaire on the application of customer protection rules for the *Autorité de contrôle prudentiel et de résolution* (meeting on 11 February 2014), the Ombudsman's report (meeting on 7 May 2014) and the annual report on cheque controls (regulation 2002-01) (meeting on 11 February 2014). It examined the compliance action plan for 2014 (meeting on 11 February 2014) and then the business plan for Financial Crime Compliance and Regulatory Compliance for the 2014-2016 period (meetings on 7 May and 23 July 2014).

The Committee was informed of the findings of various audits carried out by the regulators and received the follow-up letters and answers on these missions: *Autorité des marchés financiers, Autorité de contrôle prudentiel et de résolution* and Prudential Regulation Authority and of the action plans initiated to implement their recommendations. It reviewed the Chairman's report on internal control and risk management procedures (meeting on 11 February 2014) and the annual report to the *Autorité de contrôle prudentiel et de résolution* on the functioning of the internal control systems (permanent control and periodic control), as required under regulation 97-02 (meeting on 7 May 2014).

The last aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit and Risk Committee reviewed the parent-company and consolidated accounts. The 2013 consolidated financial statements were presented according to IFRS, with a distinction drawn between the legal and French managerial scope of consolidation[1]. Parent company financial statements for 2013 were presented according to French GAAP. The Committee discussed the choices made by the company and presented by the Finance Department in drawing up its financial statements. The Statutory Auditors commented on their management letter and the aspects subject to particular attention at the time of preparing the 2013 financial statements (meeting on 11 February 2014). They presented their limited review on the financial statements at 31 March 2014, 30 June 2014 and 30 September 2014 (meetings on 7 May, 23 July and 14 November 2014). The Committee discussed the Statutory Auditors' programme and independence, approved the fees paid in 2013 by the HSBC France group to the Statutory Auditors (meeting on 11 February 2014). It was informed that the appointment of PricewaterhouseCoopers as Statutory Auditors to HSBC France to replace KPMG would be formally proposed at its meeting of 5 February 2015, before being proposed to the Board. This appointment follows the HSBC Group's decision to appoint PricewaterhouseCoopers as external auditors to the HSBC Group.

The Committee also examined, at each of its meetings, the bank's regulatory capital and liquidity ratios, its liquidity and funding situation, and structural interest rate risk. It was informed of the commercial and financial impacts of negative interest rates and given a status report on systems preparation (meeting on 23 July 2014). Finally, at its meeting on 23 July 2014, the Committee was informed of the updated liquidity contingency plan.

The Committee approved HSBC France recovery plan (meeting on 7 May 2014).

The Chairman of the Audit and Risk Committee reported on the key points of the Committee's work at the Board meetings held on 14 February, 9 May, 25 July and 18 November 2014.

Compensation

Compensation and advantages of Executive Directors

Remuneration policy

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

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

The variable component is determined on the basis of a number of objective performance indicators covering business aspects (profit before tax, growth in revenue, level of provisions for risks, return on risk-weighted assets, etc.), Global Standards aspects for risk and compliance ares (implementation of Global Standards, observance of compliance and internal control rules, active risk management, relationship quality with regulators, etc.), process aspects, aiming to simplify the organisation and optimise costs, and, finally, People aspects, covering in particular performance and talent management. These indicators are analysed in comparison with the objectives set at the beginning of the year. To these criteria, is added, henceforth, an appreciation of individual behaviour with regard to the Group's values which are dependability, openness, listening, courage and integrity.

The variable component also takes account of market practices and, if necessary, changes in regulations. In accordance with the HSBC Group's deferral rules, this variable component is paid partly in non-deferred and partly in deferred remuneration and partly in cash and partly in shares.

1 *See footnote 2 page 5.*

Chairman's report on corporate governance and internal control and risk management procedures (continued)

Award of shares
In 2014, Executive Directors benefited from the allocation of bonus shares in HSBC Holdings plc in accordance with the HSBC Group's general policy.

The HSBC Group awards various categories of bonus shares:

– Group Performance Shares are awarded to Executives of the HSBC Group and which have the following specific conditions:
  - a five year vesting period,
  - a restricted period beyond the vesting period, which runs until retirement,
  - a performance condition measured using eight indicators (four financial and four non-financial) from the performance scorecard of the manager concerned;

– Restricted Shares, which are not subject to specific performance criteria but which are definitively awarded to employees still with the HSBC Group at the end of a two or three-year period, which is the period in force for France.

With respect to 2014, HSBC France Executive Directors received Restricted Shares, for which the only criterion is to be with the company after a period of two or three years. Furthermore, Group Performance Shares were awarded to Jean Beunardeau as well as Samir Assaf who does not receive any remuneration from HSBC France.

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

At 31 December 2014, Jean Beunardeau had accrued pension rights representing 4.9 per cent of his fixed 2014 salary and 2.6 per cent of his total 2014 cash remuneration. At 31 December 2014, Gilles Denoyel had accrued pension rights at HSBC France representing 24.4 per cent of his fixed 2014 salary and 12.5 per cent of his total 2014 cash remuneration.

The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2014, for an amount of EUR 5.5 million.

Remuneration
Samir Assaf, Chairman of the Board of HSBC France, does not receive any compensation or fees from HSBC France and is not a beneficiary of the HSBC France supplementary pension scheme. He has an employment contract with another company of the HSBC Group and has access to a pension fund of the HSBC Group.

The remuneration of Jean Beunardeau, CEO of HSBC France, and Gilles Denoyel, Deputy CEO of HSBC France, is detailed on pages 33 to 35.

Regarding employment contracts, the Corporate Governance Code published by the AFEP and the MEDEF considers that the withdrawal of the Executive Directors' employment contract does not apply to unlisted subsidiaries. Therefore, it is considered that this recommendation does not apply to HSBC France, which is an unlisted subsidiary of HSBC Holdings plc.

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

The following information is published in accordance with the provisions of article L. 225-102-1, paragraphs 1, 2 and 3 and article L. 225-184 of the French Commercial Code. It concerns remuneration paid by HSBC France, the companies it controls and the companies that control it (the HSBC Group). The remuneration of the Executive Directors below is presented in accordance with the AFEP and the MEDEF Corporate Governance Code as applied by HSBC France, as well as the *Autorité des marchés financiers* recommendations of December 2009[1].

1 *Tables numbers refer to table models provided by the* Autorité des marchés financiers *in its 10 December 2009, as amended on 17 December 2013 and on 5 December 2014, recommendation 2009-16 concerning the guide for compiling registration documents.*

Summary of compensation and options and shares awarded to each Executive Director

Chief Executive Officer

(in euros)	2013 Total compensation	**2014 Total compensation**
Jean Beunardeau		
Fixed remuneration	542,007[1]	**545,826**
Allowance "*Material Risk Taker*"[2]	–	**564,000**[3]
Variable remuneration in cash	274,324	**189,413**
Variable remuneration in share[4]	274,324	**189,413**
Deferred variable remuneration in cash[5]	411,487	**284,120**
Deferred remuneration in shares without performance conditions[6]	411,487	**284,120**
Deferred remuneration in shares with performance conditions[7]	342,905	**105,229**
Directors' fees	–[8]	**–**[8]
Benefits in kind	–	**–**
Total	2,256,534	**2,162,121**

1 *Fixed remuneration reviewed as at 1 February 2013.*
2 *Allowance awarded to "Material Risk Takers" identified by Group according to the Prudential Regulatory Authority regulation.*
3 *Allowance awarded in form of shares and subject to a 5 years holding period (20 % available for sale in year n+1 and 80 % in year n+5).*
4 *Shares that vest immediately and are subject to a 6 months retention period.*
5 *Variable remuneration in cash deferred over 3 years (33% will vest in year n+1, 33% in year n+2 and 34 % in year n+3).*
6 *Variable remuneration in shares without performance conditions deferred over 3 years (66% will vest in year n+2 and 34 % in year n+3) and subject to a 2 years retention period.*
7 *Variable remuneration in shares with performance conditions deferred over 5 years (100% will vest in year n+5) and subject to a retention period up to retirement.*
8 *Renunced the payment of his fees by HSBC France (see page 37).*

Deputy Chief Executive Director

(in euros)	2013 Total compensation	**2014 Total compensation**
Gilles Denoyel		
Fixed remuneration	450,000	**450,000**
Allowance "*Material Risk Taker*"[1]	–	**104,000**[2]
Variable remuneration in cash	332,870	**165,896**
Variable remuneration in share[3]	–	**165,896**
Deferred variable remuneration in cash[4]	–	**110,598**
Deferred remuneration in shares without performance conditions[5]	332,870	**110,598**
Directors' fees	–[6]	**–**[6]
Benefits in kind	4,647[7]	**4,647**[7]
Total	1,120,387	**1,111,635**

1 *Allowance awarded to "Material Risk Takers" identified by Group according to the Prudential Regulatory Authority regulation.*
2 *Allowance in cash paid on a monthly basis.*
3 *Shares that vest immediately and are subject to a 6 months retention period.*
4 *Variable remuneration in cash deferred over 3 years (33% will vest in year n+1, 33% in year n+2 and 34 % in year n+3).*
5 *Variable remuneration in shares without performance conditions deferred over 3 years (66% will vest in year n+2 and 34 % in year n+3) and subject to a 2 years retention period.*
6 *Renunced the payment of his fees by HSBC France (see page 37).*
7 *Company car.*

Chairman's report on corporate governance and internal control and risk management procedures (continued)

Share options awarded during the year to each Executive Director by HSBC France and any company of the HSBC Group

	Number of the plan and date of award	Type of options	Value of the shares under the method used for the consolidated accounts	Number of options awarded during the year	Exercise price	Period of exercise

None (see page 32).

Share options exercised during the year by each Executive Director

CCF options exercised in 2014

	Number of options exercised	Exercise price EUR/share	Date of award	Expiry date

None.

HSBC Holdings plc options exercised in 2014

	Number of options exercised	Exercise price EUR/share	Date of award	Expiry date

None.

Shares awarded to each Executive Director in 2014 in respect of 2013

HSBC Holdings plc shares with performance conditions

In respect of 2014, except Samir Assaf, but who does not receive any remuneration from HSBC France, only Jean Beunardeau has been awarded shares with performance conditions ("Group Performance Share").

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Jean Beunardeau	10.03.2014	45,437	EUR342,905	10.03.2019 for 100%	On retirement

1 *The performance conditions to which is subject the acquisition of the Group Performance Shares are described page 32.*

HSBC Holdings plc shares without performance conditions

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Jean Beunardeau	10.03.2014	54,525	EUR411,487	10.03.2016 for 66% and 10.03.2017 for 34%	10.03.2018 for 66% and 10.03.2019 for 34%
Jean Beunardeau	10.03.2014	36,350	EUR274,324	10.03.2014 for 100%	10.09.2014 for 100%
Gilles Denoyel	10.03.2014	44,107	EUR332,870	10.03.2016 for 66% and 10.03.2017 for 34%	10.03.2018 for 66% and 10.03.2019 for 34%

Shares awarded to each Executive Director in 2015 in respect of 2014

HSBC Holdings plc shares with performance conditions[1]

In respect of 2014, except Samir Assaf, but who does not receive any remuneration from HSBC France, only Jean Beunardeau has been awarded shares with performance conditions ("Group Performance Share").

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Jean Beunardeau	02.03.2015	ND	EUR105,229	02.03.2020 for 100%	On retirement

1 *The performance conditions to which is subject the acquisition of the Group Performance Shares are described page 32.*

HSBC Holdings plc shares without performance conditions

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Jean Beunardeau	02.03.2015	ND	EUR284,120	02.03.2017 for 66% and 02.03.2018 for 34%	02.03.2019 for 66% and 02.03.2020 for 34%
Jean Beunardeau	02.03.2015	ND	EUR189,413	02.03.2015 for 100%	02.03.2015 for 100%
Gilles Denoyel	02.03.2015	ND	EUR110,598	02.03.2017 for 66% and 02.03.2018 for 34%	02.03.2019 for 66% and 02.03.2020 for 34%
Gilles Denoyel	02.03.2015	ND	EUR165,896	02.03.2015 pour 100%	02.09.2015 pour 100%

Performance shares which became available for each Executive Director in 2014

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

HSBC Holdings plc shares, without performance conditions, which vested for each Executive Director in 2014 (Table 7)

The shares awarded in 2011 were vested for 66 per cent in 2013 and 34 per cent in 2014.

The shares awarded in 2012 were vested for 66 per cent in 2014.

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Jean Beunardeau	15.03.2011	27,818	
Jean Beunardeau	12.03.2012	48,482	
Jean Beunardeau	10.03.2014	36,350	
Gilles Denoyel	15.03.2011	15,744	
Gilles Denoyel	12.03.2012	42,846	

1 *The shares awarded under the French sub-plan are available two years after the vesting. The shares awarded under the British plan are available at the vesting.*

Chairman's report on corporate governance and internal control and risk management procedures (continued)

10 highest awards of options to employees who are not Executive Directors and 10 highest exercises of options

	Number of options awarded/ exercised	Average exercise price	Date of award	Expiry date
CCF options awarded during the year, by the issuer and by any company of its group to its ten employees whose number of awarded options is the highest	None			
HSBC options awarded during the year, by the issuer and by any company of its group to its ten employees whose number of awarded options is the highest	None			
CCF options exercised during the year by the ten employees and former employees whose number of exercised shares is the highest	None			
HSBC options exercised during the year by the ten employees and former employees whose number of exercised shares is the highest	–	–	–	–

HSBC Holdings plc free shares, without performance conditions, awarded in 2014 in respect of 2013, to the ten employees whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	10.03.2014	602,633	EUR4,547,962	10.03.2016 for 66% and 10.03.2017 for 34% or 10.03.2014 for 100%	10.03.2018 for 66% and 10.03.2019 for 34% or 10.09.2014 for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 40) vests immediately and is available after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, awarded in 2015 in respect of 2014, to the ten employees whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares under the method used for the consolidated accounts	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	02.03.2015	ND	EUR2,535,904	02.03.2017 for 66% and 02.03.2018 for 34% or 02.03.2015 for 100%	02.03.2019 for 66% and 02.03.2020 for 34% or 02.09.2015 for 100%

1 *Part of the free shares awarded to employees considered as Material Risk Takers (cf. page 40) vests immediately and is available after six months of vesting.*

HSBC Holdings plc free shares, without performance conditions, vested in 2014, for the ten employees whose number of awarded shares is the highest

	Number of shares vested[1]	Vesting dates
Total value of the 10 highest awards of shares, vested in 2014 (employees or former employees)	636,215	
Of which award 2011	353,564	15.03.2014
Of which award 2012	243,196	12.03.2014
Of which award 2014	39,455	10.03.2014

1 *Including the shares awarded under the British plan, for which the dates and vesting rules are different or the non-deferred shares. The free shares are available, either two years after the vesting, or at the vesting date in the case of the British plan, or after six months of vesting in the case of immediate shares.*

Other information required by the Corporate Governance Code

Executive Director Function First appointed Term ends	Employment contract[1]	HSBC France supplementary pension scheme[2]	Compensation or benefits due or that may be due upon termination or change in duties	Compensation due under terms of non-compete agreement
Jean Beunardeau Chief Executive Officer[3] 1 February 2010[4] 2017	Suspended	Yes	No	No
Gilles Denoyel Deputy CEO 1 March 2004 2017	Suspended	Yes	No	No

1 *See page 32.*
2 *See page 32.*
3 *Deputy CEO then CEO since 10 January 2012.*
4 *Date of appointment as Deputy CEO.*

Directors' Fees

The maximum amount of Directors' fees payable each year was fixed at EUR 600,000, as decided by the Annual General Meeting of 21 December 2007.

Following a review of the level of Directors' fees paid, which had not been reviewed since 2005, and of sector practices, and in view of the increased amount of work required from Directors and members of the Board Committees, the Nomination and Remuneration Committee proposed to the Board of Directors to increase Directors' fees in 2011.

Hence, in its meeting on 15 February 2011, the Board of Directors decided to increase individual fees, in respect of the financial year 2011, as follows:

– each Director receives an annual flat fee of EUR 27,000 at the conclusion of the Annual General Meeting;
– the additional annual flat fee paid to Board Committees members amounts to:
  - EUR 12,000 for the members of the Nomination and Remuneration Committee,
  - EUR 14,000 for the Chairman of the Nomination and Remuneration Committee,
  - EUR 18,000 for the members of the Audit and Risk Committee,
  - EUR 30,000 for the Chairman of the Audit and Risk Committee.

Furthermore, within the HSBC Group, it is customary for Directors representing HSBC and Executive Directors to renounce Directors' fees from HSBC Group companies. This recommendation has been implemented by the Executive Directors of HSBC France and its subsidiaries.

In 2014, in respect of 2013, Jean Beunardeau, Gilles Denoyel, Alan Keir, Philippe Pontet and Antonio Simoes renounced the payment of their fees. It has to be noted that, according to this rule, Samir Assaf, Chairman of the Board of HSBC France, does not receive any fees from HSBC France for his office.

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

The total Directors' fees net of social contributions, income tax prepayment and withholding tax to be paid in 2015 in respect of 2014 amount to EUR 0.29 million, as in 2014 in respect of 2013.

Directors' fees and other compensation paid to Non-Executive Directors by HSBC France, the companies it controls and the companies which control it (the HSBC Group) (Table 3)

	Directors' fees paid in 2013 in respect of 2012	Directors' fees paid in 2014 in respect of 2013	Other compensation paid in 2013[1]	Other compensation paid in 2014[1]
Executive Directors of the HSBC Group companies				
Alan Keir[2,3]	–	–	–	GBP2,281,498
Philippe Pontet	–	–	EUR1,225,167	EUR1,508,875
Antonio Simoes[2,4]	–	–	GBP1,162,936	GBP1,959,666
Directors elected by the employees[5]				
Evelyne Cesari[6]	EUR17,982	–		
Véronique Duquesne[7]	EUR5,792	EUR22,815		
Michel Gauduffe	EUR24,144	EUR17,145		
Thierry Jacquaint[6,7]	EUR17,982	–		
Guillaume Praud	EUR5,792	EUR17,145		
Philippe Purdy[7]	EUR24,144	EUR22,815		
Independent Directors[8]				
Martine Gerow[9]	EUR2,858	EUR28,575	–	–
Lindsay Gordon[10]	–	EUR23,625	–	–
Philippe Houzé	EUR26,035	EUR26,035	–	–
Igor Landau[11]	EUR5,715	–	–	–
Anne Méaux	EUR17,145	EUR17,145	–	–
Thierry Moulonguet	EUR156,685[12]	EUR145,302[12]	–	–
Marcel Roulet[13]	EUR17,145	EUR4,286	–	–
Peter Shawyer	EUR219,766[14]	EUR32,799[14]	–	–
Brigitte Taittinger	EUR17,145	EUR17,145	–	–
Jacques Veyrat	EUR24,765	EUR24,765	–	–

1 *Fixed and variable remuneration and benefits in kind.*
2 *Emoluments shown are paid by other HSBC Group companies in respect of his executive functions within the Group.*
3 *Appointment on 10 December 2013.*
4 *Co-optation on 22 February 2012.*
5 *In 2013, in respect of 2012, amounts paid, net of payroll tax. In 2014, in respect of 2013, amounts paid, net of social contributions and income tax prepayment.*
6 *Appointment ended on 26 September 2012.*
7 *Directors' fees paid to a trade union organisation.*
8 *From 2013, amounts paid, net of social contributions and income tax prepayment.*
9 *Appointment on 1 November 2012.*
10 *Co-optation on 27 February 2013.*
11 *Appointment ended on 15 May 2012.*
12 *Of which EUR 36,195 paid by HSBC France, excluding withholding tax.*
13 *Appointment ended on 30 April 2013.*
14 *Of which EUR 31,500 paid by HSBC France, excluding withholding tax.*

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

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

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

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

The compensation policy in place in France falls within the framework of this global policy, while also ensuring that local regulations, in particular those arisen from European Directives CRD III of July 2010 and CRD IV of June 2013, are observed.

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

The People Committee, made up of the main Senior Executives of HSBC France (the Chief Executive Officer also in charge of Global Banking and Markets, the Deputy Chief Executive Officer in charge of the Risk functions, the Chief Operating Officer and the Head of Human Resources), reviews the main aspects of the compensation policy for France and approves it. It ensures that this policy fits in with the general principles of the compensation policy set by the HSBC Group for all of its subsidiaries, and in the light of the specific directives set by the global business lines. Lastly, it gives an opinion on the policy's compliance with local professional standards and the recommendations of banking supervisory bodies in France such as the *Autorité de contrôle prudentiel et de resolution* and the European Central Bank since 4 November 2014, the *Autorité des marchés financiers* and the *Fédération bancaire française*.

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

Lastly, on an individual basis, it reviews and validates the consistency of compensation paid to professionals whose activities have a significant impact on the company's risk profile, as well as the 20 highest compensation packages, in collaboration with the HSBC Group's decision-making bodies and global business lines. It ensures that proposed individual compensation packages take into account any individual failures to meet the bank's operational, credit, compliance, information security, and reputation risk criteria.

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

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

Main characteristics of the compensation policy

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

The main performance indicator used by the HSBC Group, in particular to fix variable compensation budgets, is the profit before tax before variable compensation and excluding the change in value of own debt under Fair Value Option due to credit spread and capital gains or losses on businesses' et subsidiaries' disposals. On the other hand, it includes model and credit risk provisions.

Variable compensation budgets on a global basis and by businesses are reviewed and approved by the Group Chief Risk Officer, the Group CEO, the Group Chief Financial Officer and the Group Remuneration Committee.

Once these variable compensation budgets are approved, they are divided by regions and countries depending on their respective performance. Local performances are measured on one hand by financial metrics, such as growth in revenue, comparison of revenue and cost trends, the cost efficiency ratio, trend in provisions for risks, the profit before tax, or the return on equity and on risk weighted assets, and on the other hand, by non-financial metrics such as sales quality, customer satisfaction, results of internal audit missions and implementation of recommendations, or risk management, which assessment is based on the level of risk weighted assets, liquidity ratio, and the amount of operational losses. These indicators are analysed by comparison to the previous year and against the year budget.

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

– top performer,
– strong performer,
– good performer,
– inconsistent performer.

This new four points performance rating scale aims to encourage differentiation in variable compensation levels, according to the performance rating and contribution to objectives set at the beginning of the year.

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

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

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

It is to be noted that Senior Executives (Group Classification 0, 1 and 2) are also evaluated on their adherence to the Group's values (dependability, openness, listening, courage and integrity).

In compliance with the rules under CRD III and CRD IV directives, some employee categories are subject to specific rules regarding variable compensation award. These employees, considered to have an impact on the entity's risk profile (Material Risk Takers), were identified on the basis of qualitative and quantitative criteria defined by the European Banking Authority in March 2014. Pursuant to these criteria, the HSBC Group, which is itself submitted to this regulation, identified at France level a list of 36 employees coming under this Material Risk Takers category.

As these new criteria have to be applied both at a consolidated and an individual basis, an additional list of 25 employees who can have a significant impact on the company's risk profile at a local level was added to this list of Material Risk Takers identified at HSBC Group level.

This whole list of 61 employees includes mainly the executive directors, the heads of business lines, the heads of risk functions and the market operators who have an impact on the company's risk profile. It has to be noted that among these 61 employees, six of them are employees of HSBC Bank plc branch in France.

For this population, variable remuneration are limited to twice the fixed remuneration, according to the decision made by HSBC France shareholders' general meeting held on 13 June 2014. In order to maintain the competitiveness of Material Risk Takers remuneration, Group has modified the remuneration of several of them by allocating a monthly fixed pay allowance linked to their function. In addition their variable is deferred by 40 per cent and even by 60 per cent for he highest variable. Finally, variable remuneration granted in the form of shares accounts for 50 per cent of variable remuneration granted; this 50 per cent applies to both the deferred component and to its immediately paid fraction.

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

For this population as a whole, 42 per cent of variable remuneration is deferred, and variable remuneration represents 46 per cent of total remuneration. The deferred share-based portion is not vested by the employee until after a period of two years for 66 per cent and after three years for the remaining 34 per cent. This is furthermore subject to a two-year retention period starting from vesting, and there is a prohibition on hedging it.

It should be noted that beyond this Material Risk Takers population, the great majority of the company's senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2014, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, and to which the above rules on vesting and retention apply.

Lastly, since 2010, a clawback system applies to all employees receiving deferred bonuses. This allows the HSBC Group's Remuneration Committee to cancel, reduce or amend all or part of bonuses awarded on the basis of the employee's behaviour or factors justifying such action.

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

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

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

Remunerations awarded to overall staff

(in euros)	FTE Headcount	Total Remuneration 2014
Executive members	2	3,269,109
Global Banking and Markets	699	110,179,437
Retail Banking and Global Functions	7,935	454,316,432
Total	**8,636**	**567,764,977**

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

Total remuneration: distribution between fixed pay and variable pay

(in euros)	Number of people concerned	Total Remuneration 2014	Total fixed pay	Total variable pay
Executive members	2	3,269,109	1,663,826	1,605,283
Global Banking and Markets	40	28,659,043,	15,324,605	13,334,438
Retail Banking and Global Functions	19	8,020,797	4,492,159	3,528,638
Total	**61**	**39,948,949**	**21,480,590**	**18,468,359**

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

(in euros)	Payments in cash	Payments in shares	Total variable pay
Executive members	750,027	855,256	1,605,283
Global Banking and Markets	6,636,506	6,697,832	13,334,438
Retail Banking and Global Functions	1,938,030	1,590,608	3,528,638
Total	**9,324,563**	**9,143,796**	**18,468,359**

Total variable pay : distribution between non deferred and deferred amount

(in euros)	Non deferred amount	Deferred amount	Montant total de la part variable
Executive members	710,619	894,664	1,605,283
Global Banking and Markets	7,684,395	5,650,043	13,334,438
Retail Banking and Global Functions	2,249,014	1,279,624	3,528,638
Total	**10,644,028**	**7,824,331**	**18,468,359**

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

(in euros)	Payments in cash	Payments in shares	Total deferred variable pay
Executive members	394,718	499,947	894,664
Global Banking and Markets	2,810,217	2,839,826	5,650,043
Retail Banking and Global Functions	621,968	657,656	1,279,624
Total	**3,826,902**	**3,997,428**	**7,824,331**

Chairman's report on corporate governance and internal control and risk management procedures (continued)

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

(in euros)	Amount of unvested deferred variable pay in respect of previous financial years
Executive members	3,158,849
Global Banking and Markets	17,718,863
Retail Banking and Global Functions	2,365,644
Total	**23,243,356**

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

Amounts paid in respect of hiring (guaranteed variable)

(in euros)	Number of people concerned	Amount paid in respect of hiring (guaranteed variable)
Executive members	–	–
Global Banking and Markets	–	–
Retail Banking and Global Functions	NC	350,000
Total	**NC**	**350,000**

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

Amount of severance payments

(in euros)	Number of people concerned	Amount of severance payments
Executive members	–	–
Global Banking and Markets	–	–
Retail Banking and Global Functions	NC	1,211,307
Total	**NC**	**1,211,307**

Contributions to defined benefit plan

(in euros)	Number of people concerned	Contribution to defined benefit plan
Executive members	2	629,913
Global Banking and Markets	–	–
Retail Banking and Global Functions	–	–
Total	**2**	**629,913**

Informations on highest remunerations

Total remuneration

(in euros)	Number of Material Risk Takers
Between 1 million and 1.5 million excluded	4
Between 1.5 million and 2 million excluded	1
Between 2 million and 2.5 million excluded	1
Total	**6**

This is aimed at "promised" severance pay granted during the reference financial year.

Conflicts of interest

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

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

Article IV-2 of the Board of Directors' internal rules states that any Director who has a conflict of interest must report it to the Board and must abstain from voting on any corresponding motion, and that the Chairman may invite the Director not to attend the discussion.

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation.

These rules specify the Board's main duties:

– to discuss all issues relating to its legal and regulatory obligations and those arising from the company's Articles of Association;
– to determine the general direction of the company's activities and ensure that it is followed.

In addition, the rules confer certain duties on independent Directors sitting on the Board of Directors of a 100 per cent-owned subsidiary as follows:

– to discuss the strategy adopted by HSBC France;
– to oversee its implementation;
– to approve strategic investment and divestment plans and all transactions liable to have a significant impact on earnings;
– to oversee and control material risks;
– to ensure the quality of information provided to the shareholder and to the market through the financial statements and the Annual Report;
– to protect the reputation of the HSBC Group in France.

The Board's internal rules define the procedures for conducting Board meetings and providing information to the Board. They indicate the main duties and arrangements for exercising the function of Chairman, and the main duties of the Chief Executive Officer. Furthermore, the Board's internal rules define, in accordance with the HSBC Group rules, the duties, powers and responsibilities of the Audit and Risk Committee and the Nomination and Remuneration Committee (as stipulated above in the parts related to these Committees' assignments). They also incorporate a code of conduct to be followed by the Directors of HSBC France, setting out their rights and duties. Lastly, they define intervention rules on the HSBC Group listed securities for HSBC France Directors.

Self-assessment

In accordance with the AFEP MEDEF Code recommendations concerning assessment of the Board of Directors, HSBC has implemented a self-assessment process in 2011. This assessment was conducted internally, under the responsibility of the Nomination and Remuneration Committee and on the basis of Directors' answers to a detailed questionnaire. The main themes raised concerned the running and composition of the Board and its Committees, their effectiveness, the information available to Directors to perform their duties, relations between the Board and the bank and ways of improvement from Directors' point of view.

In order to respond to the wishes expressed by Directors concerning training, a training day intended for independent Directors focusing on strategy and the various business lines was held on 1 July 2011. In addition, an induction day was organised on 29 April 2013 for recently appointed Directors in priority and also proposed to all Directors already in office. On 17 November 2014, during a half-day session organised for the whole Directors, the heads of business lines presented their activity and strategy.

A Board review was carried out at the end of 2014, based on a questionnaire covering four themes: the role of the Board, Board composition, skills and application, Board procedures and practices, and Board culture and behaviour. Results will be presented to the Board in the first half of 2015.

General Meeting

Meetings are open to all shareholders. They are convened and transact business in accordance with the provisions of the law and regulations in force. According to article 22 of the Articles of Association, all shareholders, whatever the number of shares they own, are entitled to attend General Meetings and to take part in the deliberations, personally or through a representative, provided their shares are paid up in full for payments that are due and are registered on an account in their own name no later than midnight, Paris time, on the third business day preceding the General Meeting. However, the author of the notice to attend has the option at all times to reduce this period of time, as he so sees fit.

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

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

Restrictions on the CEO's powers

The CEO has the widest powers to represent the company in all circumstances within the limits of its corporate objects and subject to those powers expressly conferred by law on the collective body of shareholders and the Board of Directors.

In this respect, the Board of Directors has delegated its powers to issue bonds to Jean Beunardeau (Chief Executive Officer), Gilles Denoyel (Deputy Chief Executive Officer) and several Global Markets Officers. At present, there are no specific restrictions on the Chief Executive Officer's powers, but in practice, decisions involving the orientation of company activities are submitted to the Board of Directors for approval.

The Chief Executive Officer has delegated certain powers to the Deputy Chief Executive Officer and Senior Corporate Vice-Presidents, who may in turn delegate some of these powers to agents holding general powers of attorney reporting directly to them.

These powers concern:

– representation of the bank,
– banking operations,
– bank-related operations,
– litigation.

Delegated powers must be exercised within the bounds of the person's responsibilities and in accordance with the HSBC Group principles and practices. A person with delegated powers may not individually commit HSBC France to sums above EUR 1,500,000.

There are specific delegated powers concerning credit[1] and market[2] risk, for which the CEO delegates his powers.

CHAIRMAN'S REPORT ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The general framework of internal control and risk management

Context

Internal control at HSBC France relies on:

– clear articulation of responsibilities of various actors and control levels;
– organisation charts and job descriptions with appropriate delegations of authority as well as functional and hierarchical lines clearly defined;
– segregation of duties;
– teams dedicated to internal control within businesses and central departments;
– transverse risk functions run and overseen by central functions;
– monitoring of the resources dedicated to permanent control in order to verify the adequacy in terms of skills and number;
– risk and control maps covering the entire scope of the HSBC Group in France;
– a code of conduct binding on all staff;
– comprehensive procedures covering all activities and more particularly specifying control responsibilities;
– outsourcing management policy;
– a sound process on new products or services;
– the existence of rules, tools and an organisation to assess, supervise and control the major risks;
– quality, security and integrity of information systems;
– quality and integrity of accounting and management information, based on accounting controls and an audit trail;
– business recovery plans and IT recovery plans;
– a reporting and committee framework ensuring effective coordination between different levels of control as well as a summary of assessments for the executive directors and supervisory body;
– the assessment of this permanent control framework by an independent third-level control (periodic control).

In 2013, the HSBC Group has adopted a risk management and internal control structure, with reference to the three lines of defence, so as to ensure completion of its commercial aims while meeting regulatory and legal requirements and its accountabilities towards shareholders, customers and staff. This operating model aims to strengthen the articulation between the different levels of internal control and risk management by clearly establishing accountabilities.

The first line of defence is made up of businesses, functions and HTS (HSBC Technology and Services) who have to ensure that all risks within their activities and operations are identified, mitigated and monitored by an appropriate control environment that is commensurate with risk appetite. They are particularly responsible to:

– identify risks and ensure implementation of adequate and complete control environment to address risk recorded in the Risk Map;
– ensure deficiencies are identified, priorized and escalated to the management and 2nd line of defence for remediation;
– risk training and communication to enhance risks knowledge;
– establish dedicated teams, independent from operations that perform internal controls and manage operational risks (BRCM - Business Risk and Control Management) to assist businesses, functions and HTS in risk and control monitoring and ensure that they have available qualified resources;

1 *See Risk management page 81.*
2 *See Risk management page 86.*

- evaluate, with the support the efficiency of controls to ensure that they are effective. This evaluation can take form of a definition and indicators follow-up, tests or detailed thematic examinations. They have responsibility to ensure that adequate means are implemented for this oversight following a documented risk approach;
- ensure that activities and process are exercised in accordance with all external and internal rules.

The second line of defence comprises functions and HTS, whose role is to ensure that the risk appetite statement is observed in relation to the risks they are responsible for overseeing. They are responsible for guaranteeing that HSBC France comply with its duties within Operational risks and Internal control.

The main missions of the second line of defence on risks perimeter for which they are accountable are:

- develop policies and standards required to manage risks within risk appetite and tolerances, oversee their effective implementation and objectively monitor and challenge the performance of risk and control activities;
- coordinate the permanent control framework within businesses, functions and HTS;
- provide independent oversight of the operational risk profile, identify emerging risks and gaps and carry out specific reviews of key risk issues;
- escalate weaknesses and delays in action plans to the appropriate governance committees, particularly to the Risk Management Committee, through Risk map et Top Risks;
- prepare and chair the specialised risk committees.

Within the second line of defence, the Risk function, leaded by the Chief Risk Officer (CRO), Head of Risk function plays a major role. The main other second lines of defence functions are:

- Financial Crime Compliance;
- Regulatory Compliance function;
- Security and Fraud function, which oversees fraud risk, physical security, information security and business continuity;
- Retail Credit Risk function, which oversees retail credit risks;
- Wholesale Credit Risk function, which oversees credit risks on wholesale market;
- Market and Traded Risk, which oversees market risk;
- Operational Risk team in charge of oversight operational risk and manage the permanent control framework.

In France, the Legal and Fiscal functions are also lead by the CRO.

The CRO, Head of Risk function, relies on other functions of the second line of defence to ensure a complete and accurate risk monitoring (Human Resources, Finance function as regard accounting, liquidity, structural interest rate, forex and tax, HTS function in charge of overseeing notably IT, and Vendor Risk management).

The third line of defence is Internal Audit, whose role is to provide independent assurance to the Senior Management and the Board of Directors over the design and functioning of risk management, governance and internal control processes. Periodic controls of HSBC France aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks implemented, by means of independent investigations conducted centrally by staff qualified for this purpose. Internal Audit assurance assesses the management of the risks and controls by the first line as well as controls oversight by the second line.

This internal control and risk management framework refers to COSO (Committee of Sponsoring Organisations of the Treadway Commission). In France, the Deputy CEO in charge of risk and permanent control (in accordance with regulation 97-02 updated in November 2014) is also CRO.

HSBC Group Manuals

The GSM (HSBC Group Standards Manual) sets out the standards that all HSBC Group companies must observe. It applies to all the HSBC Group's businesses all over the world. No dispensation is granted without the specific agreement of the HSBC Group Chairman.

All the HSBC Group's business activities must be fully documented in manuals or compendia of procedures. Functional Instruction Manuals (FIMs) contain detailed policies and procedures relating to a specific business or function, product or activity, which must be adhered to throughout the HSBC Group, barring dispensation granted by the FIM's owner for the HSBC Group.

In addition, HSBC France and its subsidiaries are required to document their operating procedures and their specific practices (Business Instruction Manuals – BIMs – or equivalent, and internal circulars). Internal circulars are the key vehicle for communicating internal standards and rules derived from French regulatory requirements or HSBC Group standards that apply to several or all the HSBC Group structures operating in France. They are readily available on the HSBC France Intranet. The drafting, circulation and storing of circulars are governed by precise rules (also formally set out in a circular) and are regularly updated.

The adequacy and effectiveness of these manuals have to be reviewed at least once a year; managers are required to report annually on the implementation thereof, to confirm that their business activities are fully covered by them, that they are comprehensive, and that existing procedures have been reviewed over the past year. Based on these confirmations, the Chief Executive Officer of HSBC France provides an aggregate certificate to the HSBC Group.

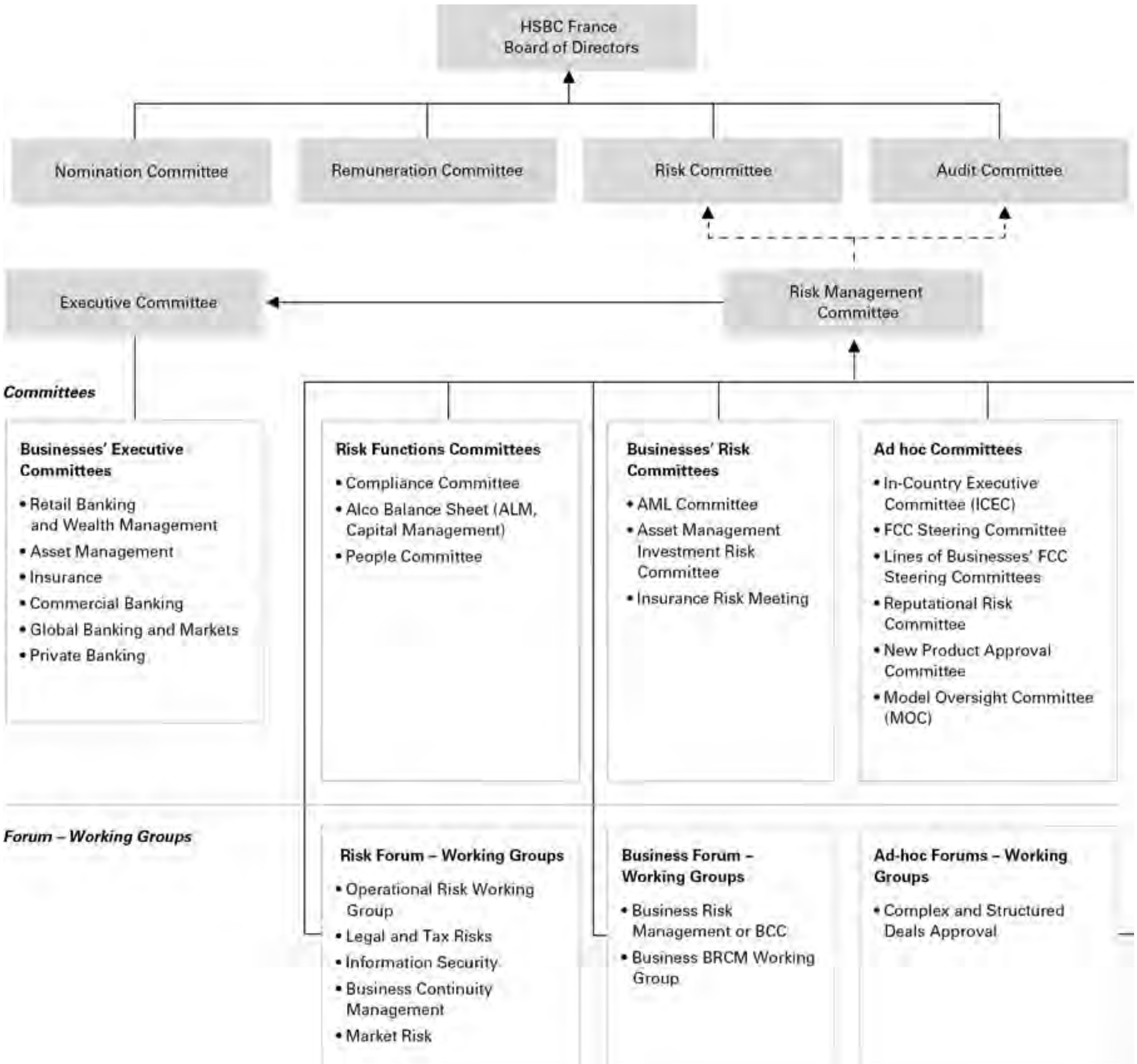
Chairman's report on corporate governance and internal control and risk management procedures (continued)

Handbook and Codes of Conduct

The Handbook features business ethics rules that apply to all staff, relating to confidentiality, compliance with laws and regulations and professional integrity. In addition to these rules, each of the bank's businesses or activities may have a specific code of conduct and/or compliance manual that collates operational application procedures relating to staff business ethics and compliance with laws and regulations. Staff members working in functions regarded as sensitive are also subject to specific requirements relating to personal transactions.

The internal committees

Risks are supervised by a number of dedicated committees, forum and working group, the general organisation of which is shown in the diagram below.



Senior Management is kept regularly informed of the organization and findings of permanent and periodic controls, in particular through various dedicated committees.

Among these committees, the Risk Management Committee (RMC), the Committee related to Operational Risk and Internal Control, and the Compliance Committee play a key part in coordinating the control framework, summarising controls and monitoring risks.

This framework is completed by dedicated risk committees in businesses, functions, and HTS combining the three levels of internal control, in order to manage, monitor and control the risks specific to each HSBC activity in France.

The Risk Management Committee (RMC)
The RMC, which is chaired by the Chief Risk Officer and includes most of the members of the Executive Committee, is an overarching committee overseeing risk management and permanent control. It meets every month to analyse HSBC France's main risks, as established by a previously agreed agenda.

The RMC reports functionally to its European equivalent in the HSBC Group through the communication of minutes. Locally, all risk assessments presented to the RMC are also used by the HSBC France's Executive Committee and the Audit Committee and the Risk Committee. The RMC covers all entities operating in France.

The RMC makes use of the work of all dedicated committees, forum and working group and summarises their findings (cf. organigramme above).

The authorities related to operational risk and internal control (Operational Risk Working Group (ORWG) and Operational Risk/BRCM Forum)
Management and supervision of permanent control, as defined by the French order of 3 November 2014 regarding internal control in banks regulated by ACPR, the French regulator is the responsibility of the ORWG.

Its rules, drawn from those of the HSBC Group, have been adapted to the requirements of the French order of 3 November 2014. They are reviewed annually.

The ORWG meets on a quarterly basis under the chairmanship of the Chief Risk Officer. The aim is to ensure that HSBC France group's operating permanent control and operational risk management framework meets the requirements of the ACPR (*Autorité de contrôle prudentiel et de resolution*) and the HSBC Group.

Within this framework, it is the committee's responsibility with regard to operational risk:

– to analyse the operational risks presented by the various businesses and functions (in particular major risks) by validating or adapting the controls proposed as necessary with a view to reducing the risks;
– to review the progress made in action plans, in particular those relating to risks deemed the most critical;
– to review major incidents (actual or potential losses and near misses) in terms of the amount or type of incident, as reported by the businesses and functions;
– to review the compliance of the operational risk framework in respect of regulatory requirements and the HSBC Group requirements (as defined in the GSM, the FIM or Group Circular Letters);
– to review cross-functional issues relating to operational risk management or methodological issues (such as risk assessment, monitoring tool), define and then periodically review operational risk monitoring indicators;
– to examine the results of the reviews relating to businesses and functions internal control or thematic reviews.

The ORWG comprises:

– Heads of HSBC France businesses (Retail Banking and Wealth Management, Asset Management, Insurance, Commercial Banking, HSBC Technology and Services, Global Banking and Markets and Private Banking);
– Heads of the main functions;
– the Head of Internal Audit France (INA FRA);
– the Head of Operational Risk team, which coordinates the committee and acts as secretary;
– the HSBC France Company Secretary.

The summary of the work and findings of this Working Group is regularly communicated to the Risk Management Committee and the Audit Committee and the Risk Committee of the HSBC France group.

The work of the ORWG is based primarily on the summary of the work of the HSBC France Operational Risk/BRCM Forum, which combines all internal control and operational risk management teams of HSBC France businesses and functions (BRCM – Business Risk and Control Management), in the presence of a representative of main second line of defence functions and a representative of the Internal Audit.

The HSBC France Operational Risk/BRCM Forum meets quarterly as per agenda defined by the Operational Risk team, a few days before the Operational Risk Working Group. Discussion of the issues raised allows the Operational Risk Team to achieve a summary of the highlights, which constitutes the supporting material for the ORWG.

Each business has a dedicated operational risk and internal control meeting, which convenes at least once quarterly. The permanent members of these committees include at least one manager of HSBC France's Executive Committee or the main entity of the businesses and the managers of the various functions contributing to the risk and permanent control framework. A Central Operational Risks team representative attends the committee's meetings.

Functions of the second line of defence hold a monthly or quarterly permanent control committee meeting, chaired by the function's manager, and attended by the function's members and experts, business and Operational Risk team representatives and, for some of them, the Deputy CEO.

Permanent control

Principles
Permanent control is primarily based on controls carried out by the managers responsible for each activity. The purpose of these controls is to ascertain that the activity is conducted in accordance with all internal and external rules and is up to standard. The key responsibility for permanent control falls to the managers of the various businesses and functions, who must ensure that level-1 controls are conducted in a proper manner compliant with the HSBC Group Standards Manual (GSM), that states

Chairman's report on corporate governance and internal control and risk management procedures (continued)

"controls should be considered as fully embedded in the activities".

In addition to first level controls, the HSBC France group's permanent control is based on a framework, under the responsibility of the Deputy Chief Executive Officer. These comprises primarily:

– the businesses and functions' internal control and operational risk teams (Business Risk and Control Management teams), responsible for coordinating permanent control for the heads to whom they report directly;
– the Operational Risk team, in charge of coordinating permanent control procedures. The Operational Risk team oversees the work carried out by BRCM (Business Risk and Control Management) teams within the businesses and functions and reports hierarchically to these businesses and functions heads, as well as control teams within functions in charge of overseeing and coordinating the risks of their function;
– the nine functions including those involved in the second line of defence. In particular, the Compliance function ensures that all HSBC France group entities control the risk of non-compliance as defined in the French order of 3 November 2014;
– and lastly, a number of committees that examine the results of controls and the main incidents.

In addition to its internal periodic control framework, and with a view to complying with the provisions of the American Sarbanes-Oxley law (SOX), the HSBC Group has implemented since 2006 a framework for documenting and assessing internal control, with regard to the processes and operations involved in drawing up financial statements.

HSBC France's Finance Department is responsible for coordinating all SOX measures and summarising their results.

Twice a year, the "SOX 4 Way Meeting", chaired by the Chief Financial Officer, and primarily comprising the Statutory Auditors, the Periodic Control Officer and the Chief Operating Officer (COO) of HSBC France, reviews:

– any deficiencies revealed by SOX control measures (documentation and "self-assessment" of businesses and function within the scope);
– the result of tests run by the Statutory Auditors;
– the progress made in action plans.

At each quarter, HSBC France's Audit Committee and the Risk Committee is informed of the results of controls carried out for SOX compliance purposes and of progress made in the action plans.

The Operational risk framework

Within the second line of defence, the Operational Risk function is responsible for coordinating permanent control and for providing a forward looking and transverse overview of risks, it has to:

– in terms of general governance, the implementation of the HSBC Group risk framework;
– provide independent oversight of the operational risk profile, identify emerging risks and gaps and carry out specific reviews of key risk issues;
– ensure an oversight of the second level of control performed by the first line of defence;
– provide quality assurance and challenge of risk and control maps, internal control monitoring plans, of the results of control monitoring activity conducted by the first line of defence and of the completeness of second line oversight of the business and functions;
– escalate weaknesses and delays in action plans to the appropriate governance committees.

Operational Risk function, as the Europe Operational Risk regional team, is organised by functions, businesses and HTS for better communication with first line of defence.

The Central Operational Risk team works closely with the businesses and functions' internal control and operational risk management teams (BRCM teams) and the functions of the second line of defence. Its role is to consolidate and harmonise, covering all entities or structures reporting to HSBC France on key issues such as reviews of risk and control maps, the design and monitoring of action plans, documentation of stress scenarios, incident declaration, monitoring the introduction of risk indicators, and even reviewing control plans, coordinating the formal definition of key controls and the contents of reports.

The strong functional relationship between the businesses and functions' internal control and operational risk management teams is based on the following four principles:

– monthly bilateral meetings between the Central Operational Risk team and the internal control and operational risk management teams of the businesses and functions, at which the subjects discussed include developments in activity and risk trends, progress made in the annual control programme, major incidents (actual or potential losses and near misses), protection of information, etc. At least once a year, risk mapping (in particular operational risk) is more specifically reviewed, as is the draft control programme for the next year and the general assessment of resources allocated to permanent control;
– Operational Risk team's participation in the dedicated business / functions / HTS risks committees, which include:
  - the BRCM meetings (Forum, Working Group or meeting),
  - the business risk committees,
  - the specialized function committees (Legal and Tax Risk, Compliance, IT, Permanent Control, Finance, etc.),
  - the Audit Committee and the Risk Committee of HSBC France and the Audit and Risk Committees of its subsidiaries,

- monthly loss / provision meeting: chaired by Operational risk team member with BRCM GBM, RBWM, CMB, GPB, HTS, Legal, Finance, Security and Fraud, Credit to share information linked to operational incidents and declared in the Group reporting tool (ORION). A dedicated GBM meeting is also held on monthly basis;

– submission by the BRCM teams of Risk and Control maps (on an ongoing basis and at least once a year), support documents and minutes of the Audit and Risk Committees of HSBC France subsidiaries, annual contributions on internal control and risk management to the annual reports intended for the *Autorité de contrôle prudentiel et de résolution* (articles 258 and 259 of French order of 3 November 2014);

– other "meeting points":
  - Operational Risk/BRCM Forums and information meetings;
  - dedicated groups (methods, indicators, risk scenarios, etc.);
  - training and awareness-raising schemes (technical and regulatory watch, "workshops" and seminars, etc.);
  - review of the Internal Control teams and thematic or risks reviews.

Reliability, strengthening and enhancement of internal control and operational risk framework continued in 2014 with notably:

– the initiation phase of the "Operational risk transformation program" which main objectives are to better priorise risks and controls with the implementation of a risk based approach and redesign articulation of role and responsibilities across the three lines of defence;

– the annual Risk and Control maps review by experts of the second line of defence and their submission by businesses and functions to the Chief Risk Officer. The Operational Risk team reviews the Risk and Control maps and the businesses and functions relevant Heads validate them. They are regularly updated according to material events occurred during the year and changes in the risk profile and regularly submitted to forums and Operational Risk and BRCM Working Groups. Risk map serve as the basis of the ORIC risk management annual control programme;

– the enrichment and reliability of some operational risk indicators, for a better risk monitoring;

– work between global Business and Global functions on control plans;

– the monitoring of risk appetite on a monthly basis and the determination of annual tolerance on operating losses, through close collaboration with Global businesses;

– participation in the work initiated by the HSBC Group, in particular on stress testing and the preparation of a possible transition to the advanced (AMA) methodology so as to calculate the regulatory capital requested for operational risks;

– the further enhancement of controls in areas such as information security and business continuity;

– the improvement in the supervision and control of third party services, including those provided by other HSBC Group entities;

– the updating of old circulars.

Awareness of all employees on risk management was continued in 2014 notably through regular meetings to raise awareness about topical issues or risk-related matters (Lunch and Learn) and through mandatory staff e-learning trainings.

The Compliance function

Organisation of the Compliance function

HSBC France group's permanent control framework of non-compliance risks is coordinated by the Compliance Function whose organisation changed in 2014 in the context of the "Global Standards" programme, implemented by HSBC Group at worldwide level. Compliance function is structured around two distinct functions respectively reporting to the Head of Financial Crime Compliance and the Head of regulatory Compliance:

Financial Crime Compliance (FCC) focuses on anti-money laundering, counter terrorist financing, international financial sanctions, anti-bribery and corruption. FCC is composed of central teams experts in these matters and teams dedicated to each business line (Retail Banking and Wealth Management, Commercial Banking, Private Banking, Global Banking and Markets, Asset Management and Insurance).

Regulatory Compliance (RC) focuses on conduct of business and customer protection, market conduct and general regulatory compliance management including advice of the business and other functions. RC is composed of teams dedicated to each business line (Retail Banking and Wealth Management, Commercial Banking, Private Banking, Global Banking and Markets, Asset Management, Insurance and HSBC Technology and Services).

Compliance Shared Services, working on FCC and RC matters besides each team, is composed of Compliance Monitoring and Testing (CMAT), Regulatory Affairs and Policies and Compliance Business Management teams.

This new Compliance function organization aims to meet the following goals:

– the creation of an homogeneous Compliance function within HSBC Group at local, regional and global levels;

– a better alignment of Compliance function with businesses and functions;

– the distinction between advice to business and compliance control missions.

All HSBC France group compliance teams report to either FCC or RC heads' that report to the HSBC France deputy CEO in charge of risks, in order to fully guarantee independence of the function from operational activities, in accordance to the French order of 3 November 2014 relating to banks' internal control and the articles 313-2 and 313-3 of the AMF General Regulations. All employees compliance managers in respect of the above order, in charge of the Compliance Officer for Investment Services (RCSI) or Compliance and Internal Control Officer (RCCI) for HSBC France Group entities, are under the responsibility of the Head of Regulatory Compliance. Besides, some compliance employees' exercise for each HSBC France Group legal entity concerned the role of correspondent to TRACFIN (French Financial Intelligence Unit).

The Head of Regulatory Compliance and the Head of Financial Crime Compliance are responsible for compliance control at HSBC France according to article 28 of the aforesaid regulation, and for coordinating the HSBC France group's compliance control framework. Furthermore, the Head of Regulatory Compliance also acts as the HSBC France's RCSI according to articles 313-3 and 313-4 of the AMF General Regulation.

Compliance staff represented 95 employees at end of December 2014.

Compliance risks management framework

Compliance function is in charge to handle, for all HSBC France group entities, management of non-compliance risks as defined in article 10 p) of the French order of 3 November 2014 relating to banks' internal control.

Identification of non-compliance risks

Compliance function relies notably on the Legal Department's to monitor legislative and regulatory changes and developments in case law that have an impact on the HSBC France group, analyse them and define their methods of application.

Non-compliance risks analysis is documented in risks assessments, listing laws, regulations, professional rules and HSBC Group internal rules that apply to each business or activity, and the procedures and controls that ensure compliance with these rules. Non-compliance risks assessments are updated at least every six months.

Non-compliance risks affecting HSBC France group's activities concern the following areas: anti money laundering, terrorist financing, international financial sanctions, bribery and corruption, customer protection, good conduct of business for the benefit of customers, complaints handling, remuneration policy, protection of integrity and transparency of financial markets, professional secrecy and protection of personal data, business ethics, prevention of conflicts of interests and respect of regulatory requirements concerning cross border marketing.

Within HSBC France group, identification and monitoring of the respect of regulations relating to specific matters fall under the responsibility of the second line of defence functions with expertise and appropriate resources (accounting standards, prudential ratios, major counterparties risks control, recommendations relating to security of information systems, etc.). Compliance sphere of competence does not extend to the respect of rules not relating to banking and financial fields (labor law and social security, regulations for the safety of persons and property, etc.) whose monitoring belong to second line of defence functions of HSBC France.

Training and awareness

Compliance function, in line with HSBC France's Training Department, sets up an annual training plan for staff on non-compliance risks. Face-to-face or e-learnings training sessions are organised in every businesses and functions.

In 2014, trainings have been deployed on the following themes either through face-to-face sessions or e-learnings:

- training of all staff on anti-money laundering, international financial sanctions and reputational risks;
- training depending on the different business lines on customer protection: Aeras convention, access to basic banking services, markets integrity, appropriateness of products, etc.

All year long, HSBC France deployed towards its personnel five on-line mandatory trainings. Employees were requested to complete each of these e-learnings within a given timeframe. The Senior Management of the company followed the completion rates of these e-learnings on a monthly basis and took all corrective measures when needed to ensure full completion by its personnel within a short timeframe.

Since compliance is the responsibility of everyone, on a daily basis, HSBC France implemented in 2014 a mandatory training on its culture and values that all senior staff has to follow. 19 sessions were deployed in 2014 more sessions are due to take place in 2015. HSBC France's objective is to make sure a value based performance culture becomes its employees' code of conduct.

Compliance review procedures and tools of detection and prevention

HSBC France group has specific procedures in place to review compliance, in accordance to articles 35 to 38 of the French order of 3 November 2014 relating to banks internal control, and non-compliance detection and prevention tools. These procedures and tools are updated on a regular basis.

Control framework

Compliance function is mostly considered in HSBC France group as a second line of defence. This role is ensured by:

- the implementation of policies and circulars, advising and training operational teams;
- the implementation of thematic reviews led by Compliance Monitoring and Testing team.

Escalation of issues and dedicated committees

Operational oversight of the compliance control framework and follow-up on any identified discrepancies relies, first of all, on periodic and specific reporting procedures in the Compliance channel as well as the information conducted in the Compliance Committee.

Issues escalation

The compliance officers of each HSBC France group entities issue a report at least twice a year on compliance framework of entities within the scope of his or her responsibility and send this report to the relevant business head of Compliance.

Potential compliance exceptions are subject of a report prepared by compliance officers of relevant entity that is passed on to the appropriate level of the compliance function. Actions taken to remedy these incidents then monitored on a regular basis using a dedicated tool called IRIS (Integrated Regulatory Information System). As part of consolidated approach to the risks of non-compliance, the compliance function also centralises and follows-up on the missions of the supervisory authorities in HSBC France group's entities.

Dedicated committees

The compliance risk management framework and principal issues identified are monitored by dedicated committees, composed of Compliance function and business representatives.

Compliance Committee is held on a quarterly basis under the presidency of the HSBC France Chief Risk Officer, before HSBC Chief Executive Officer and members of HSBC France Executive Committee that are head of a business. This committee assumes:

- a decision making role relating to compliance control framework;
- a role of information to senior management on the framework, issues and remediation plans.

Furthermore, in the context of the "Global Standards" implemented by the HSBC Group, a committee dedicated to Financial Crime Compliance (FCC Steering Committee) has been put in place in order to ensure follow-up of the implementation of action plan relating to Financial Crime Compliance and the "Global Standards" programme in France. All representatives of FCC departments, senior management and heads of each business take part to this committee, which is also deployed in each business line.

Besides, there are quarterly anti-money laundering dedicated committees in each business line organised and animated by FCC, which purpose is to deal with all matters relating to anti-money laundering.

With regard to risks relating to new products and services, as well as to significant changes to existing products, most of the business lines have set up bodies specifically to review commercial initiatives. For HSBC France group, new products and services that meet certain criteria are also subject to prior approval by the Product Examination Committee, which is chaired by the HSBC France CEO, and for which the Regulatory Compliance function serves the secretariat.

Non-compliance risks are also reported to global risk committees such as "Risk Management Committee" (RMC) where are reported the main risks for HSBC France.

Highlights of the year

In 2014, the HSBC Group "Global Standards" programme deployment has been continued notably with the implementation of new sanctions and anti-bribery policies, and the set-up of central dedicated teams.

Concerning customer protection and good conduct of business, the HSBC Group is deploying, world widely, a reinforcement programme of the control framework of the "Conduct Risk".

Conduct Risk covers matters related to fair and equal treatment of customers "Treating Customers Fairly", which encompasses notably:

- provide clients with just fair and not misleading information on products characteristics and associated risks;
- offer products providing clients with fair value for money and that are adapted to their needs and risk profile (misselling risk);
- ensure investments management in respect of commitments toward clients and fair pricing of products regarding the services provided and in an equal manner between customers;
- ensure respect of market integrity rules.

Organisation of accounting

Accounting procedures

The Finance Department is responsible for the proper application of the HSBC France group's accounting principles and accounting control procedures. It defines the procedures and controls to be applied in each legal entity's accounting department. This more particularly concerns accounting and reconciliation procedures designed to verify the existence, exhaustivity and validity of balance sheets, off-balance sheet accounts supporting the issuance of financial statements and, by construction, income statements.

Oversight of the accounting and regulatory audit trail is formally documented in a number of procedures and documents prepared under the responsibility of the departments of the Chief Accounting Officer (CAO) and other finance services. These are mainly documents relating to accounting tools and interfaces, accounting charts, certification of the financial statements, statements of user requirements, methods of operation for the audit trail.

The Finance Department maintains and disseminates accounting procedures and circulars, that comply with French GAAP and International Financial Reporting Standards (IFRS). These principles are based essentially on the French Commercial Code, French accounting law, IFRS.

Organisation of accounting production

The vast majority of reporting documents are produced monthly and on both a non-consolidated and consolidated basis. These reportings present collected data in comparison with those of the previous year and the budgeted objectives based on a budget prepared annually and updated quarterly.

Chairman's report on corporate governance and internal control and risk management procedures (continued)

Two sets of accounts are prepared, one under French GAAP and one under IFRS. The HSBC Group's integrated "System 11" consolidation software produces IFRS-compliant consolidated financial reporting statements that also meet all the requirements of the *Autorité de contrôle prudentiel et de résolution* (ACPR) and the parent company.

The introduction of a financial and balance sheet datawarehouse has facilitated reconciliation and ensures that accounting, financial, regulatory and management reports are consistent with financial accounting. The datawarehouse stores data from both HSBC France and most of its subsidiaries. It contains various types of data: accounting data, inventories, or detailed breakdowns of carrying values depending on the information required for internal and external disclosure. Consistency controls have been established within the datawarehouse, which feeds the consolidation software and is used to produce the various French regulatory reports *via* the Report Authority software.

Accounting production controls

The bank's financial control environment is based on three mains areas:

– a framework of monthly accounting certification;
– communication of results;
– Sarbanes-Oxley (SOX) internal financial control.

According to the HSBC Group's rules, HSBC France draws up a monthly certificate of accounting reconciliation which is sent to the HSBC Group Finance Division, Europe. This certificate attests that all balance sheets and off-balance sheets accounts are properly reconciled and summarises accounting reconciliation certificates provided by the various accounting and financial heads of HSBC France and its subsidiaries. These certifications are formally documented through AssureNET, the Group's accounting certification application, used by HSBC France and subsidiaries that have the PSGL accounting software.

This monthly accounting certification reporting is based on the principle that each general ledger account is assigned to a specific owner who is responsible for its reconciliation. Any irregularities revealed by the reconciliation certificate give rise to the establishment of a corrective action plan by the relevant businesses and departments. The Finance Department's accounting control service conducts reviews in HSBC France businesses and functions and its subsidiaries to ascertain the quality of the supporting documents in support of the reconciliation process.

The financial control function, which is partly located within the businesses, reports monthly the HSBC Group Senior Management, the Heads of the businesses and functions and to the Finance Department.

The financial reports are submitted on a monthly basis to the Chief Financial Officer who presents the results to the Executive Committee each month and reports to the HSBC France Audit Committee and Risk Committee and the HSBC France Board of Directors and also reports to the HSBC Group Finance Department.

The HSBC France's Audit Committee examines the quarterly, interim and annual financial statements submitted to the Board of Directors.

In order to comply with the American Sarbanes-Oxley Act (SOX), which is applicable to the HSBC Group, HSBC France's management must carry out an in-depth assessment of the internal control procedures used in drawing up financial statements. The most significant processes supporting the publishing of these financial statements are thus the subject of detailed documentation and specific controls, supervised on a regular basis as part of the quarterly review system. These detailed analyses of flows of transactions to accounts help improve audit trail control. Weaknesses identified by such controls must be corrected as soon as possible and a SOX Internal controller within Finance Department oversees and coordinates all such work.

Internal Audit plays an active role in ensuring that the SOX arrangements are properly applied, by carrying out its periodic control assignments. The SOX Internal controller of the Finance Department – has access via the HSBC Group's Audit Issues Database (AID) to the audit issues raised by the various audit teams, enabling it to follow up the SOX recommendations issued by periodic controls across the entire accounting and financial scope. In addition, the Statutory Auditors, for their part, conduct an annual review of the framework on behalf of the HSBC Group Auditors, who in turn give their opinion on the SOX 404 report prepared by the management of HSBC Holdings plc.

Each quarter, HSBC France's Audit Committee and Risk Committee is informed of the results of controls carried out for SOX compliance purposes and of progress made in the action plans. A certificate signed by the CEO, the CFO, and the Head of Internal Audit is sent twice a year to HSBC Bank plc, attesting to the effectiveness of financial internal control procedures and where appropriate specifying any weaknesses undergoing correction as identified by those in charge of assessing controls.

Periodic controls

In accordance with French order of 3 November 2014 concerning bank's internal control, the role of Internal Audit is to provide Senior Management and the Audit Committee and Risk Committee of HSBC France, objective assurance about risk management and the internal control system implemented by the bank. Periodic controls of HSBC France aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks implemented, by means of independent investigations conducted centrally by staff qualified for this purpose.

As part of HSBC Group's risk management framework, Internal Audit (INA) comprises the third line of defence, coming successively behind the businesses and functions' own first line of defence and the separate second-line of defence teams (Operational Risk, Compliance, Legal, Security etc.). Whilst the first- and second-line of defence are taken into account, INA has unlimited initiative in the scope of its own work. This independence lies in the fact that Internal Audit is responsible to provide Senior Management and the Audit Committee and Risk Committee of the bank, an independent and objective assurance on the risks it is exposed to and their level of control. As such, Internal Audit pays attention, in the first instance, to evaluate the respect of national and community legislation applicable to the audited field and, secondly, to the correct application of rules and procedures in force within the HSBC Group and, at last, that audited activities remain within the defined appetite for exposure to the associated risks.

In accordance with article 27 of the French order of 3 November 2014, the periodic control framework applies to the entire company, as well as to companies under exclusive or joint control.

Global Internal Audit (GBL INA) is comprised of 13 global audit teams whose role is to provide expert coverage of HSBC Group's businesses and functions.

These specialised audit teams are consolidated and comprise amongst others, five regional audit teams (Europe, Middle-East, North America, Asia-Pacific and Latin America) along with country audit teams, including Global Internal Audit France (INA FRA) whose responsibility is to cover HSBC France risks.

HSBC France's periodic control is therefore covered conjointly by two GBL INA entities, functionally linked and coordinated:

– INA FRA, a general audit team based in France, in the main historically auditing central functions, Retail Banking and Wealth Management, Commercial Banking, banking operations, IT and strategically important projects. INA FRA comprises 33 members of staff mainly split between business auditors and IT auditors;
– the global teams, specialised by business and/or function, based principally in London and Hong Kong, whose areas of involvement depend on the following functional structure:
  - Europe and GBM Audit, responsible for auditing Global Banking and Markets and the European region,
  - RBWM and GPB Audit, responsible for auditing Private Banking, Retail Banking and Wealth Management, Insurance and Pension Costs, Asset Management and mechanisms for protecting customer of Retail Banking,
  - Risk and Finance Audit, responsible for auditing Wholesale and Retail credit risk, model and market risks, legal and compliance risks, management of operational risk, physical and information security, fraud risk capital adequacy and liquidity requirements, asset and liability management, accounting, management control and tax,
  - CMB and Technology Services and Functions Audit, responsible for commercial banking risks and the main central functions and banking production, third party risks, IT and communication infrastructures and systems and their security, IT data application developments, IT projects and organisational changes, in support of the business audit teams.

Beyond the functional and regional organisation described above, Global Audit relies on local resources in numerous countries.

Country teams have the detailed knowledge of local regulations and climate enabling coverage to be adapted as appropriate, and functionally reporting to the global audit function ensures consistency between teams, all of whom are held to the high standards defined and regularly updated in the Global Audit Standards Manual.

HSBC France periodic controls in 2014 have thus been assured jointly by GBL INA directly, by INA FRA or by both actors in concert in accordance with the agreement signed on 25 March 2011 which defines the roles and responsibilities and coverage model.

There are four francophone members of the global audit teams based in Paris, primarily assigned to audits in France within Global Banking and Markets, and Global Functions respectively.

The scopes of local audit and global audit converge and are consolidated in the HSBC France audit plan, with both parties holding regular discussions. In all cases, as defined in the French order of 3 November 2014, all audits in France are managed in coordination with the Head of HSBC France Internal Audit (Inspector General), who oversees their consistency and efficiency.

HSBC France's Inspector General, Head of INA FRA reports to the HSBC France CEO and the Audit and Risk Committees of HSBC France, and functionally to the Head of European and GBM Audit.

All Audit work is performed in accordance with HSBC Group's audit standards, as set out in the Global Internal Audit Standards Manual (GASM). The GASM is updated on a regular basis, and is re-read by auditors at least once a year and its policies applied during each audit.

In 2014, the GASM focused heavily on compliance with the audit methodology, documenting each stage of every audit and on high quality. In this regard, the following factors are particularly relevant:

– a qualitative improvement in audit work undertaken in the HSBC Group: Internal Audit has improved consistency in methodology for risk assessment (based on the latest enterprise-wide risk prioritisation matrix), to always identify the root cause of a control breakdown, follow the global writing standards, build a complete record of all audit work. All audits are subject to strong quality assurance checks;
– the definition of six categories of audit work: governance audits; processes and controls audits; thematic audits; project audits; regulatory audits dictated by regulation and regulatory authorities, and special investigation audits; and risk management

framework audits, designed to assess the control environment of a specific type of risk;

- an evolution in relations with auditees: recommendations are replaced by management action plans, discussed and defined with audited management during fieldwork. These actions detail the operational steps to correct the identified breakdowns, along with the responsible party and the completion due date. Also, issues can be assessed as very high risk in addition to the previous high and medium risks. The report grades for Control Risk and Management Action are aligned along a scale of three: satisfactory, needs improvement or not satisfactory;
- the introduction of "tollgate" meetings at the key stage of the planning, fieldwork and reporting phases of each audit, which aim to ensure agreement between all impacted stakeholders within Internal Audit on risk ratings, conclusions and timeliness of action plans;
- upgrading the in-house audit information system (AIS) which includes, notably: audit plans, audit history and audit testing programmes. Acting as a workflow, AIS enables Internal Audit to track and monitor the implementation of management action plans, and retain the associated audit trail.

These enhancements are aligned to the recommendations issued by IFACI (Institute of Internal Auditors French affiliate) further to its review of HSBC France audit in July 2013, notably:

- making the underlying risks more explicit in the annual audit plan;
- improving the audit trail by strengthening control testing documentation;
- improving root cause analysis leading to critical recommendations;
- making recommendations more measurable and setting clearer targets.

In addition, the HSBC Group's auditing standards are set forth in INA FRA's own internal procedures. The reference framework formed by these documents along with GASM, is used by the audit teams to conduct their audits. This corpus is revised and updated annually. Similarly, important information on the organisation of Audit is regularly published on an internal staff website and includes: policy, structure charts, internal procedures, standards and assignment planning.

In addition to regular discussions held with Global Audit, a number of other elements contribute to maintaining an independent and up to date view of key risks in France, in particular:

- the Inspector General participates in the HSBC France Executive, Risk Management, Operational Risk and Internal Control committees, Financial Crime Compliance Committee and Regulatory Compliance Committee, the HSBC France Audit Committee and Risk Committee, and that of its subsidiaries;
- the senior audit managers or the heads of audit missions participate in the risk committees of the different businesses and functions;
- regular bilateral meetings, usually quarterly, between the Inspector General, INA FRA senior management and the different heads of businesses and functions;
- regular meetings, usually quarterly, between the Inspector General, INA FRA senior management and the external auditors.

In terms of management information, audit reports are sent to the management or the person in charge of the audited entity or process, who is ultimately responsible for ensuring that Internal Audit's recommendations are implemented, as well as any recommendations made by the supervisory authorities or the external auditors. The CEO, the Deputy CEO, also Chief Risk Officer, the Head of Regulatory Compliance, the Head of Financial Crime Compliance, and the Head of Operational Risk and Internal Control always receive a copy of audit reports.

Audit reports relating to HSBC France subject to an adverse rating are routinely presented and commented on to HSBC France's Audit Committee and Risk Committee by the Inspector General. These Committees also monitor high risk audit recommendations which have exceeded the deadline of six months for implementation.

Finally, the HSBC France Internal Audit function is a member of the Inter Audit Committee (*Comité Inter-Inspections Générales* – CIIG), which assembles eight French banks together to undertake concerted audits of vendors providing services to at least five members as required by title V, chapter II of the French order of 3 November 2014. In 2014, INA FRA, on behalf of HSBC France, followed BPCE as committee secretary.

The set of procedures referred to in this report constitutes the basis of HSBC France's internal control system. Senior Management is responsible for overseeing the systems with support from the internal control function, particularly to ensure consistency.

Following major efforts throughout the HSBC France group, Senior Management now has the resources to comprehensively assess the quality of internal control.

Samir Assaf
Chairman

Paris, 6 February 2015

Statutory Auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board

This is a free translation into English of a report issued in French and provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2014

To the shareholders,

In our capacity as Statutory Auditors of HSBC France, and in accordance with Article L. 225-235 of the French Commercial Code ("*Code de commerce*"), we hereby report on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code ("*Code de commerce*") for the year ended 31 December 2014.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by Article L. 225-37 of the French Commercial Code ("*Code de commerce*") particularly in terms of the corporate governance measures.

It is our responsibility:

– to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information; and
– to attest that this report contains the other disclosures required by Article L. 225-37 of the French Commercial Code ("*Code de commerce*"), it being specified that we are not responsible for verifying the fairness of these disclosures.

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

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

These standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

– obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and Þ nancial information on which the information presented in the Chairman's report is based and existing documentation;
– obtaining an understanding of the work involved in the preparation of this information and existing documentation;
– determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board in accordance with Article L. 225-37 of the French Commercial Code ("*Code de Commerce*").

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L. 225-37 of the French Commercial Code ("*Code de Commerce*").

Paris-La Défense and Paris, on 27 February 2015

KPMG Audit FS II	BDO France – Léger & Associés
Pascal Brouard	Fabrice Chaffois
Partner	*Partner*

Corporate, social and environmental responsibility

Sustainability

Sustainability underpins our strategic priorities and enables us to fulfil our purpose as an international bank.

At HSBC, how we do business is as important as what we do. For us, sustainability means building our business for the long term by balancing social, environmental and economic considerations in the decisions we make. This enables us to help businesses thrive and contribute to the health and growth of communities.

Approach to corporate sustainability
Corporate Sustainability is governed by the Conduct and Values Committee, a sub-committee of the Board which oversees and advises on a range of issues including adherence to HSBC's values and ensuring we respond to the changing expectations of society and key stakeholders. Sustainability priorities are set and programmes are led by the Global Corporate Sustainability function. HSBC's country operations, global functions and global businesses work together to ensure sustainability is embedded into the Group's business and operations and effectively implemented. Executives within the Risk and the Operational functions hold a specific remit to deliver aspects of the sustainability programme for the Group.

Sustainability programme focuses on three areas: sustainable finance; sustainable operations; and sustainable communities.

Sustainable Finance
Risks and opportunities associated with a changing climate, environment and economy are anticipated and managed. In a rapidly changing world, business must anticipate and prepare for shifts in environmental priorities and societal expectations.

Sustainability risk framework
HSBC manages the risk that the financial services which it provides to customers may have unacceptable impacts on people or the environment. Sustainability risk can also lead to commercial risk for customers, credit risk for HSBC and significant reputational risk.

For over 10 years HSBC has been developing and implementing its own approach to working with business customers to understand and manage environmental and social issues in relation to sensitive sectors and themes. Customers are assessed and supported using HSBC's own policies which are regularly reviewed and refined. Policies cover agricultural commodities, chemicals, defence, energy, forestry, freshwater infrastructure, mining and metals, World Heritage Sites and Ramsar Wetlands and the Equator Principles are also applied.

Constructive feedback from NGOs and campaign groups are welcomed and discussions on matters of shared interest are regularly conducted with them.

HSBC's sustainability risk framework is based on robust policies, formal processes and well-trained, empowered people. In 2014, risk and relationship managers were trained in sustainability risk, focusing on the recent policy updates and revised processes. HSBC's designated Sustainability Risk Managers provided training to executives from Risk, Global Banking and Markets and Commercial Banking in every geographical region.

The Group uses the Equator Principles since 2003. A new version of the Equator Principles – EP3 – was launched in 2013, and HSBC introduced these changes on 1 January 2014 following training and the development of clear templates to ensure the transition was smooth.

Data and the independent assurance of the application of the Equator Principles will be available at hsbc.com in April 2015.

Policy reviews and updates in 2014
In 2014, HSBC published the reports of two independent reviews into the content and implementation of our Forest Land and Forest Products Sector Policy, by Proforest and PricewaterhouseCoopers LLP respectively. New policies on forestry, agricultural commodities and World Heritage Sites and Ramsar Wetlands, reflecting the recommendations have also been issued. These documents can be found online at hsbc.com/sus-risk.

Forestry policy
The new Forestry Policy, issued in March 2014, requires forestry customers to gain 100 per cent certification by the Forest Stewardship Council or the Programme for the Endorsement of Forest Certification in high risk countries by 31 December 2014. Certification requires that customers are operating legally and sustainably.

Feedback from stakeholders on the new policy was positive. Timber customers from affected countries such as Turkey and Mexico were receptive to the new standards, gained certification as a result of the new requirement and benefited from advice. Other customer relationships will end as soon as contractual terms allow, in cases where customers have been unable or unwilling to meet the new standards.

Agricultural commodities policy
The new agricultural commodities policy requires palm oil customers to become members of the Roundtable on Sustainable Palm Oil (RSPO) by 30 June 2014, to have at least one operation certified by the end of 2014 and all operations by the end of 2018.

A number of customer relationships will be closed where the deadline has not been met. Other customers have succeeded in joining the RSPO and having at least one operation certified by the end of 2014. One example is an Indonesian processing, refining and export company. HSBC started to engage with this and other companies in January 2014 on the changes and continued to offer advice. The management of the company sought expert advice from third parties to understand more about RSPO certification, which they found was less complex than they had imagined. Two units of the company obtained RSPO certification in June 2014, and one further is planned.

In order to encourage the shift towards sustainable palm oil, HSBC has introduced a discounted prepayment export finance product for trade flows of certified sustainable palm oil. This structured, bespoke financing was launched in Singapore and Indonesia in 2014 and in Malaysia in early 2015.

The inaugural financing using this product was for a major palm oil exporter which has been a member of the RSPO for ten years and is now fully certified. The product is available to both existing and future clients and is hoped to encourage an expansion in the proportion of palm oil that is certified sustainable.

Customers in Malaysia, Indonesia, Mainland China, Taiwan, South Korea, Thailand, Turkey and Mexico have decided to certify their operations as a result of HSBC's new policies and deadlines. A number of others were already certified. Fuller reporting on the effect of these new policies will be available in April 2015 at hsbc.com.

The World Heritage Sites and Ramsar Wetlands Policy
This is designed to protect unique sites of outstanding international significance as listed by the UN and wetlands of international importance. The policy relates to all business customers involved in major projects, particularly in sectors such as forestry, agriculture, mining, energy, property and infrastructure development.

The policy helps HSBC to make balanced and clear decisions on whether or not to finance projects which could have an impact on these sites or wetlands. HSBC has avoided financing projects in light of the policy.

Climate Business
HSBC understands that in response to climate change there is a shift required towards a lower-carbon economy and is committed to accelerating that shift by supporting customers involved in 'climate business' by seeking long-term low-carbon commercial business opportunities. Climate business includes clients in the solar, wind, biomass, energy efficiency, low carbon transport and water sectors. In 2014, HSBC's Climate Change Research team was recognised as the top team in the industry. HSBC was also a leader in public markets equity related wind financings for international companies, including the largest wind turbine equity raising since 2010 as part of the EUR 1.4 billion US$ Vestas refinancing.

'Green bonds' are any type of bond instruments where the proceeds will be exclusively applied to finance climate or environmental projects. In April 2014, HSBC became a member of the International Capital Market Association Executive Committee for the Green Bond Principles. The Green Bond Principles are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond.

In 2014, HSBC commissioned a report, 'Bonds and Climate Change: the state of the market in 2014' from the Climate Bonds Initiative to help raise awareness of climate financing.

HSBC has been at the forefront of this fast developping area. In 2014, it was the Sole Global Coordinator and Joint Leader Manager and Bookrunner for the first green bond issue by an Asian corporate issuer, for Advanced Semiconductor Engineering Inc. HSBC also acted as Sole Global Coordinator on the first green bond issued by Abengoa, the first green high-yield bond to be issued in Europe as well as being a Joint Lead Manager and Bookrunner for the first Government issuer in the Canadian Market for Province of Ontario.

UN Environment Programme Finance Initiative Principles for Sustainable Insurance
As a signatory to the PSI, a global sustainability framework, HSBC's Insurance business has committed to integrating environmental, social and governance issues across its processes, and to publicly disclosing its progress in doing so on an annual basis. A Global Programme Manager has been appointed to provide leadership, co-ordination and control of Insurance sustainability initiatives world-wide and ensure alignment with the Group's approach, and the requirements of the PSI Initiative. This includes driving appropriate activities within the Insurance business as well as with partners, regulators and other industry players; disseminating industry best practice, developing global insurance sustainability initiatives.

Sustainable Operations
Managing its own environmental footprint supports business efficiency and is part of HSBC's long-term contribution to society. By working across teams and with its suppliers new ways are found to reduce the environmental impact of its operations. Renewable energy is purchased, buildings and data centres are designed and operated more efficiently and waste is reduced. HSBC committed to cut its carbon emissions from 3.5 to 2.5 tons per employee per year by 2020.

Sustainability Leadership Programme
To deliver these ten sustainability goals 847 Senior Managers were engaged and trained through HSBC's Sustainability Leadership Programme since 2009. The programme integrates field-based experiential learning activities with leadership development sessions and is aligned to the HSBC values agenda. The programme's alumni return to HSBC's businesses and functions, and are charged to embed sustainability into decision-making and project delivery.

Renewable energy procurement
In 2014, three power purchase agreements with renewable energy generators were signed in the UK and India. This will provide 9 per cent of HSBC's energy. In August, a 10-megawatt (MW) solar power plant in Hyderabad, India came online to provide HSBC with clean energy. This will power three Global Service Centres and a Technology Centre in India. HSBC played a key role in facilitating the project by agreeing to purchase the plant's energy at a government backed fixed price for the next ten years. The plant will provide a clean and reliable source of energy. In addition, the Group has redefined its renewables target only to count energy from newly constructed energy sources which have been commissioned by HSBC.

Corporate, social and environmental responsibility (continued)

Paper use
Paper goal is being achieved in three ways: ensuring that the paper bought is from a sustainable source in accordance with HSBC's paper sourcing policy; reducing the volume of paper consumed by offices and branches; and providing paperless banking for all retail and commercial customers. The group has continued to reduce the total amount of paper purchased and to increase the proportion of paper it uses that is certified as sustainable sourced by the FSC and PEFC. Since 2011, 53 per cent reduction in paper purchased has been achieved and now certified sustainably sourced paper reached 92 per cent of all paper used by the end of 2014.

HSBC's 10-point sustainable operations strategy[1]

1 Sustainability engagement: encourage employees to deliver improved efficiency by 2020.
2 Supply chain collaboration: sustainable savings through efficiency and innovation.
3 HSBC Eco-efficiency fund: US$5 million annually to develop new ways of working, based on employee innovations.
4 Energy: reduce annual energy consumption per employee by 1 MWh by 2020, compared to 6.2 MWh in 2011.
5 Waste: use less, and recycle 100 per cent of our office waste and electronic waste.
6 Renewables: increase energy consumption from renewables to 25 per cent by 2020 from zero.
7 Green buildings: design, build and run energy efficient, sustainable buildings to the highest international standards.
8 Data centres: achieve an energy efficiency (power usage effectiveness) rating of 1.5 by 2020.
9 Travel: reduce travel emissions per employee.
10 Paper: paperless banking available for all retail and commercial customers and 100 per cent sustainably sourced paper by 2020.

1 *Further details on our progress with achieving our sustainability operations programme will be published on the HSBC Group's internet site Citizenship Section in April 2015.*

Carbon emissions
HSBC's carbon dioxide emissions are calculated on the basis of the energy used in buildings and employee business travel from over 28 countries (covering about 93% of our operations by FTE). The data gathered on energy consumption and distance travelled are converted to carbon dioxide emissions using conversion factors from the following sources, if available, in order of preference:

– factors provided by data/service providers,
– factors provided by the local public environmental authorities. For electricity, if specific factors cannot be obtained from the above two sources, the latest available carbon emission factors for national grid electricity from the International Energy Agency are used as recommended by the Greenhouse Gas Protocol; and
– for other types of energy and travel, if no specific factors can be obtained from the first two sources, latest available factors provided by the UK Department for Environment, Food and Rural Affairs and/or the Department of Energy and Climate Change in the UK are used.

To incorporate all of the operations over which the Group has financial (management) control, the calculated carbon dioxide emissions are scaled up on the basis of the FTE coverage rate to account for any missing data (typically less than 10 per cent of FTEs). In addition, emission uplift rates are applied to allow for uncertainty on the quality and coverage of emission measurement and estimation. The rates are 4 per cent for electricity, 10 per cent for other energy and 6 per cent for business travel, based on the Intergovernmental Panel on Climate Change Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories, and HSBC's internal analysis of data coverage and quality.

Carbon dioxide emissions in tonnes

	2014	2013
Total	752,000	889,000
From energy	633,000	775,000
From travel	119,000	134,000

Carbon dioxide emissions in tonnes per FTE

	2014	2013
Total	2.92	3.43
From energy	2.46	2.91
From travel	0.46	0.52

The greenhouse gas reporting year runs from October to September. For the year from 1 October 2013 to 30 September 2014, carbon dioxide emissions from global operations were 752,000 tons

Sustainable Communities
HSBC believes that education and resources such as safe water and sanitation are essential to resilient communities, which are, in turn, the basis of thriving economies and businesses.

The Group provides financial contributions to community projects, and thousands of employees across the world get involved by volunteering their time and sharing their skills.

Volunteering and donations
Thousands of HSBC employees globally are involved every year by volunteering for HSBC's Community Investment programmes. Further information on those programmes will be available at hsbc.com in April 2015.

In 2014, a total of USD 113.9 million were donated to community investment projects (2013: USD 117.4 million). Of this, USD 65.5 million was donated in Europe (2013: USD 64.4 million); USD 27.8 million was donated in Asia-Pacific (2013: USD 24.1 million); USD 3.3 million was donated in the Middle East (2013: USD 5.2 million); USD 10.4 million was donated in North America (2013: USD 11.3 million); and USD 6.9 million was donated in Latin America (2013: USD 12.4 million).

Employees gave 303,922 hours of their time to volunteer during the working day (2013: 255,925 hours).

Human rights
Human rights considerations are applied directly as they affect employees and indirectly through suppliers and customers, in the latter case in particular through project finance lending and sustainability risk policies. Human

rights issues most directly relevant for HSBC are those relating to the right to just and favourable conditions of work and remuneration, the right to equal pay for equal work, the right to form and join trade unions, the right to rest and leisure and the prohibition of slavery and child labour. Alongside its commitments, such as HSBC Code of Conduct for Suppliers (in place since 2005) the HSBC Global Standards Manual, HSBC Values and our Business Principles, the Group signed up to global commitments and standards, including the UN Global Compact, the Universal Declaration of Human Rights and the Global Sullivan Principles.

Further detail on the Group 2014 performance will be available from the end of April 2015 on the website, along with independent assurance of the application of the Equator Principles and carbon emissions.

HSBC France's role in the economy and in favour of corporate sustainability

HSBC France's robustness

HSBC France is a subsidiary of the HSBC Group, which is one of the world's largest banking groups as confirmed for many years by the league table compiled by The Banker (published by the Financial Times). In 2014, HSBC ranked fifth in this table. Each year, when presenting its strategy and giving annual updates to the public and investors, HSBC confirms that France is one of its 20 priority markets, among five in Europe.

HSBC France has a solid balance sheet and has highly satisfactory financial ratios. Its liquidity ratio of 128 per cent is kept higher than the minimum required by French regulations. The ACF (Advances to Core Funding) ratio – an internal indicator used by the HSBC Group, which compares customer loans outstanding with stable deposits and financing with a maturity of more than one year – has reached 101 per cent, demonstrating HSBC France's solid liquidity position. The Common Equity Tier One ratio is 14.1 per cent, well above the regulatory minimum.

Finally, HSBC France has strong financial ratings from the largest global credit-rating agencies: Standard and Poor's AA- negative Credit watch; Moody's A1 negative outlook; Fitch AA- stable outlook.

HSBC France's territorial, economic and social impact

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

HSBC France – Breakdown of main operating income items

(in millions of euros)	**2014**	2013
Levies and taxes	**426**	530
Dividend payment	**150**[1]	120
Salaries and employee benefits (net of payroll tax)	**764**	738

1 *Dividend paid in 2015 and not recorded as of 31 December 2014.*

In a lacklustre French mortgage market, which grew by only about 2 per cent in 2014, HSBC France's Retail Banking and Wealth Management business continued to expand its loan book with growth of circa 8 per cent. This sound performance, with growth of more than three times that of the market, resulted in further market share gains.

HSBC France's Commercial Banking business renewed the initiative taken in 2013, increasing the additional funding allocated to support its clients' international expansion to EUR 1.5 billion in 2014. This initiative proved highly popular and the full amount was allocated by mid-October 2014. 60 per cent of the funding went to the Business Banking segment (SMEs) and 40 per cent to the Middle Market segment (companies with revenues of roughly EUR 50 million to EUR 150 million). It covered the financing needs of 2,800 existing client companies and 203 new international companies (productive investment needs, receivables financing, documentary credits, etc.). Short term financing accounted for half of the total and the Business Banking segment for 75 per cent of this amount. Based on two years of strong success, HSBC France is now considering a different kind of support to continue helping businesses in their development. Average medium and long term outstanding loans rose to EUR 7.8 billion at end-December 2014.

At the end of 2013, HSBC Assurances took part in launching the Novo funds, two bond financing funds for unlisted middle market companies, with a contribution of EUR 50 million.

In addition, French local authorities have been finding it difficult to access bank credit since 2008. In this context, using the capital markets enables them to optimise and diversify the cost of funding their investments (schools, transport, etc.), thus contributing to the appeal and dynamism of the areas under their responsibility.

In 2014, their use of the bond markets declined slightly due to the availability of more varied financing options than in 2013 and 2012. However, it remains at historically high levels and still represents 12-13 per cent of total local authority funding. Despite this slight fall in volumes, HSBC France significantly strengthened its leading position, ranking number 1 lead manager for French local authority issues with a very comfortable lead due to its unrivalled experience in this market segment. It handled 30 transactions out of a total 81 in 2014 and has handled 98 out of a total 277 since 2000. As regards Sustainability, it is also important to highlight HSBC France's strong involvement in developing green bonds see page 57, particularly for local authorities. It co-led the record EUR 600 million 12-year socially responsible green bond issue for the Ile-de-France region and two socially responsible green bond issues for the Limousin region totalling EUR 20 million. In 2014, HSBC was also the top-ranked arranger of EMTN (Euro Medium Term Note) programmes for French local authorities and has handled 16 out of a total 21 in the market, including 3 in 2014. In addition, HSBC has arranged over 90 per cent of commercial paper programmes for French local authorities since 2001, handling 25 out of a total 27 in the market, including 6 in 2014.

Sustainability at HSBC France

Governance

In 2008, in order to deploy and effectively implement this strategy in France, HSBC France created a Sustainability Department, reporting to the Chief Executive Officer. Consisting of a team of seven, it coordinates the implementation of action plans developed in collaboration with representatives of each of the relevant business lines.

A Sustainability Committee brings them together quarterly, the main aim of which is to report on progress in or problems with the deployment of this strategy. It alternately brings together heads of business lines in order to validate the strategic direction, and operational managers in charge of implementing action plans.

Since 2009, the bank in France strengthened these arrangements by setting up a committee focused on the Group's environmental footprint, in charge of defining and monitoring action plans in support of the HSBC Group's operational Sustainability strategy ("Reduce"). It is comprised of business line managers who are responsible for these objectives: purchasing, IT, real estate, travel, logistics, communication and sustainability.

Action and reporting

In support of its activities, HSBC France is a member of the ORSE (*Observatoire de la Responsabilité Sociale de l'Entreprise*) and the steering committee of the *IMS-Entreprendre pour la Cité* organisation. These two independent institutions work with member companies, stakeholders from civil society and their transnational counterparts in order to fully define the issues and identify best practice in the field of corporate responsibility. HSBC France also serves on the *Collège des Directeurs du Développement Durable* (C3D), an independent organisation set up to publicise the opinions of heads of Corporate Sustainability from medium-sized and large companies and organisations.

Finally, to report on its progress, since 2011 HSBC France has published the *Revue de la Fondation HSBC pour l'Education* (HSBC Foundation for Education Review) and distributes this chapter as an extract of the registration document. These documents are available on the HSBC France website[1].

Relations with individuals or organisations interested in the company's activities

Stakeholder consultation

To help it adapt to current developments and better identify the key issues facing banks, HSBC France decided to reinforce its analysis and assessment process with a consultation of its main stakeholders. The key steps in the consultation process held in 2014 were:

– A survey was carried out among a panel of internal and external stakeholders to analyse the materiality of its main sustainability issues;

– A meeting was organised between a small expert panel of stakeholders and HSBC France Senior Management to discuss in more depth two key issues identified in the first stage of the process.

Like other banks and financial institutions, HSBC France's responsibility mainly involves governance and risk management issues (see section on "Compliance", page 64). HR/staff themes were considered significantly more important by the internal than the external panel (see section "Employee support", page 68).

Aspects related to the bank's role in economic, social and environmental development were clearly underlined, particularly by the external panel, and were the subject of a meeting with the expert panel.

The expert panel implicitly urged HSBC to:

– better promote its research to prove that the bank understands and is attentive to the changing world: for example, documents such as "Future of Retirement", "Value of Education", "Trade Forecast" and the reports published by the Climate Change Centre of Excellence already contribute to this expectation;

– educate its customers about the role and business model of financial institutions to increase their trust and confidence in the sector;

– be a facilitator of the energy transition. HSBC's environmental risk management policy and its role in developing green bonds contribute to this expectation (see section "2014 highlights", page 64).

Retail and corporate customer consultation

Customer experience and satisfaction

For HSBC France, the customer experience must meet expectations and be in line with the level of service demanded by the HSBC Group. HSBC aims to be the benchmark bank for wealth management and the leading international commercial bank and strives for excellence in the quality of services provided to its customers.

Dedicated teams are responsible for monitoring the customer experience.

1 *hsbc-france/a-propos/developpement-durable/documents-de-reference.*

For retail customers, a “customer’s voice” system enables the bank to measure its performance in terms of customer satisfaction on a monthly and quarterly basis, along with a twice-yearly comparison with competitors. A survey on service quality at branch level is also conducted regularly. The results (customer scores and comments from each branch) are submitted to the branch managers, and, since 2011, have been used in calculating the variable remuneration element for all branch employees, alongside the results of mystery shopper branch visits. These indicators are used to propose action plans aiming to improve customer satisfaction and promote and share best practices.

At the end of 2014, the proportion of customers having genuinely recommended HSBC remained stable at 36 per cent compared with end-2013, and continues to position HSBC as leader, well above its peer group average. Premium customers confirm this satisfaction level, with 84 per cent of them recommending their relationship manager and an upward trend in satisfaction with meetings (7.7 out of 10 versus 7.5 in 2013).

The Client Engagement Programme, a survey carried out among corporate clients in the HSBC Group’s 15 priority markets, measures the robustness of the bank’s client relationships through a Client Engagement Score, which produces ratings in seven areas (overall satisfaction, value, confidence, relationships, “emotion”, loyalty, recommendations).

Conducted in France for the fourth consecutive year, the 2014 survey covered all three client segments: Business Banking (SMEs), Middle Market (companies with revenues of roughly EUR 50 million to EUR 150 million) – for the first time – and Large Corporates (large companies other than CAC40).

The Business Banking score remained high at 81 out of 100 (versus 82 in 2013). Satisfaction with relationship managers was high, although HSBC’s lead over its rivals is narrowing.

The Middle Market score, which is an initial reference base, was 74 out of 100, putting HSBC behind its rivals: a better understanding of needs and a more proactive approach appear to be the main drivers for improving performance in this segment.

The Large Corporates score was stable compared with last year at 78 out of 100, with a positive gap opening up over the bank’s rivals for the first time.

Customer service

The overall number of complaints recorded in 2014 by HSBC France’s retail banking network rose significantly relative to 2013. Complaints from retail customers were 64 per cent higher than in the year-earlier period. This increase is primarily an indication that customer dissatisfaction is being better captured, mainly due to changes in the way complaints are handled and the introduction of a new direct channel of communications with our customers (secure email) in the fourth quarter of 2014.

In 2014, payment methods were the main area of complaint, accounting for 29 per cent of the total. Complaints concerned cheques, domestic and international transfers and bank cards (delays and errors). It should be noted that this year, the impact of setting up the new SEPA European payments platform and its adaptations caused some disruption for the retail customers.

The second area of complaint concerned account operation and pricing, representing 24 per cent of complaints: requests for refunds of various charges or commissions, and requests for explanation of account statements.

12 per cent of complaints involved online banking, and more particularly developments in the secure client authentication system. This pioneering system in terms of IT security and customer protection continued to be perceived as restrictive by some customers, particularly at the time of installation.

Customer service and support complaints accounted for 8 per cent of the total, mainly due to difficulties experienced by customers in contacting their advisor or a lack of responsiveness and support from their branch.

In 2014, the number of complaints sent to HSBC France’s ombudsman rose by 13 per cent compared with 2013, and the number of complaints handled directly by the ombudsman through the referral process by 41 per cent. This was mainly the effect of new regulations introduced by the French Prudential Control and Resolution Authority, which since 2012 has required banks to inform customers of all types of recourse available to them when the bank’s response to a complaint is not entirely or not at all in their favour.

Commercial Banking recorded a 2 per cent decrease in the number of complaints logged in the RSC (*Réclamation Service Client*) application.

The ten key reasons for dissatisfaction accounted for 73 per cent of total complaints. On this basis, payments accounted for 67 per cent, account management issues for 17 per cent and remote banking services for 15 per cent.

Again a key event of 2014 was the implementation of the new SEPA European payments platform and its adaptations, which caused some disruption for the commercial banking clients.

Based on complaints received, action plans have been put in place to improve procedures with the aim of delivering better service quality and improving customer satisfaction.

Employee consultation

HSBC regularly carries out global surveys among its staff.

The “Snapshot” survey aims to evaluate understanding of the bank’s strategic priorities and measure progress in ongoing change. This global survey is carried out quarterly among a representative sample of employees.

It provides another means for employees to make their voice heard in addition to the “Exchange” programme initiated in December 2012, under which managers set up discussion and information meetings with their team

Corporate, social and environmental responsibility (continued)

members. The team is free to set the agenda for the meetings and the resulting feedback is sent to the HSBC Group. More than one year after Snapshot was first introduced, it was clear that employees who had taken part in an Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes that HSBC is going through.

In parallel, for the past seven years, HSBC has carried out regular global surveys of its staff to measure their engagement and the extent to which they feel supported in their work. The Global People Survey (GPS) is the main component of this initiative. It covers all staff and all key aspects of the business, particularly their pride in belonging, their understanding of HSBC Group's strategy, their grasp of risk issues and their adoption of HSBC Group values. This survey was carried out annually until 2011, but now takes place every two years. In 2013, all staff were surveyed. The response rate was 54.6 per cent, and the overall engagement rate was 54 per cent.
The engagement rate rose to 61 per cent for staff who had volunteered for a community investment programme organised by HSBC France.

Lastly, employee consultation is also structured through the stress monitoring process and the system for detecting work-related stress see section on "Framework for preventing work-related stress", page 70.

Social relations: social dialogue and summary of collective agreements

Throughout 2014, Management presented plans on matters such as reorganisations and process optimisation to HSBC France's various employee representation bodies (Central Works Council, Works Committees and Health, Safety and Working Conditions Committees). These plans mainly concerned the IT production and maintenance business lines within the Operations Department, as well as Global Banking and Markets, the Training Department, the Communications Department and Retail Banking and Wealth Management. HSBC France implemented an economic and social data base aiming at gathering altogether all information related to our major economic and social orientations. HSBC France also consulted its Central Works Council on its strategic orientations and consequences on its business. More than 500 meetings were held and more than 4,000 questions were dealt with during 2014 in relation to these plans and other work done in conjunction with these bodies and the Employee Representatives. In addition, the Strategic Plan Monitoring Committee met three times in 2014. Management gave Employee Representatives progress updates on the deployment of the 2014 Strategic Plan for each of the businesses concerned and on organisational developments in the Finance Department, the Business Premises Department (DIE), Retail Banking and Wealth Management and Commercial Banking, as well as the associated support measures (early retirement, supported retirement, internal mobility and training leading to qualifications).

Negotiations with unions, meanwhile, resulted in the signing of nine agreements and sixteen amendments to existing agreements:

HSBC France

– HSBC France revision agreement setting up a group insurance scheme for reimbursement of healthcare expenses;
– Agreement on the monetisation of paid leave accrued within "*comptes épargne-temps*" working time savings accounts at 31 December 2014;
– Agreement on the security of the social dialogue and consultation-information processes for the Central Works Council and the Works Committees;
– Agreement on the security of the social dialogue and consultation-information processes for the Health, Safety and Working Conditions Committees;
– Agreement on Diversity and Equity in HSBC France;
– Amendment 2 to the HSBC France agreement relating to the Mobile Staff Team;
– Amendment to the Working Hours agreement of 15 October 2008 relating to working time savings accounts;
– Amendment 1 to the HSBC France agreement on the status applicable to former HSBC Private Bank and HSBC Private Wealth Managers employees;
– Amendment to the Working Hours agreement of 15 October 2008 relating to stand-by duty;
– Amendment to the HSBC France - HSBC Global Asset Management "*Contrat de Génération*" (generation contract);
– Amendment n°1 to the agreement which transforms HSBC France pension fund into a company level pension institution;
– Amendment to the Working Hours Agreement;
– Amendment n°1 to the agreement of HSBC France pension fund harmonization;
– Amendment n°2 to the agreement of HSBC France instituting a "Death and Disability" collective scheme.

HSBC Assurances Vie

– Agreement relating to the Collective Retirement Savings Plan ;
– Amendment 7 to the HSBC Assurance Vie Company Savings Plan.

HSBC Global Asset Management

– HSBC Global Asset Management revision agreement providing for collective coverage for the reimbursement of medical expenses;
– Amendment 6 to the HSBC Global Asset Management (France) agreement providing for collective coverage for the reimbursement of medical expenses;
– Amendment 2 to the collective agreement relating to the Group Savings Plan (relating to the HSBC Group's asset management activities in France);
– Amendment 2 to the Regulations of the Group Savings Plan (relating to the HSBC Group's asset management activities in France);

– Amendment 3 to the Collective Retirement Savings Plan relating to the HSBC Group's asset management activities in France;
– Collective agreement relating to the creation of a supplementary pension plan;
– Amendment 1 to the collective agreement relating to the creation of a supplementary pension plan;
– Annual wage negotiations – HSBC Global Asset Management (France) – 2014;
– Amendment 3 to the Group Working Hours Agreement;
– Amendment n°1 to the collective agreement setting a supplementary retirement plan.

Subcontractor and supplier policy

Selection criteria for call for tender invitations always include the supplier's or subcontractor's corporate sustainability policy, responsible practices and quality certifications, such as ISO (International Standards Organisation), FSC (Forest Stewardship Council) or AFNOR (Association Française de Normalisation) Diversity Label.

In 2014, the Purchasing Department continued to develop HSBC France's existing responsible purchasing policy. In 2014, its action consisted in drafting a responsible supplier charter to be endorsed by all suppliers taking part in an HSBC France tender. The charter sets out HSBC's requirements of its suppliers as regards economic, environmental and social issues;

In addition, in 2014, HSBC France's main businesses (Commercial Banking, Retail Banking and Wealth Management, Global Banking and Markets) and some global functions (Compliance, Human Resources, Finance and the Operations Department) continued to use HSBC Group Service Centres (GSC) for their back-office operations. The Krakow, Bangalore, Hyderabad and Cairo centres remain HSBC France's principal partners. The main tasks allocated to GSCs are payment services and account management operations.

At the end of 2014, the total workforce of HSBC's GSCs working for France was around 800 on a full-time equivalent basis.

Communications and events

To raise awareness about its commitments, HSBC France participates in targeted events in order to convey to a diverse audience, both internal and external, its vision of corporate sustainability, as well as information and data relating to its policy in this area. This approach promotes a rich dialogue with all stakeholders.

Among other things, HSBC France was a partner in PEXE, a French eco-business association and in GreenUnivers online media on market-based financing of eco technologies. It also took part in the Wind Energy Forum in Lille.

It contributed to the public consultation initiated by the Ministry of Finance and the Ministry of Sustainable Development relating to the White Paper on Financing the Energy Transition, and took part in the four resulting working groups. Alongside the 2° Investing Initiative think tank, which it sponsors, the bank organised a conference with the International Energy Agency (IEA) to publicise the results of its report on the Outlook for Global Energy Investment. It brought together issuers and investors in a conference on green bond issues. Lastly, with Paris Europlace, Responsible Investor and the Sustainable Investment Forum, it co-organised a conference on shareholder engagement in France and England.

Accessibility of services

The www.hsbc.fr website, like all of the HSBC Group's public websites, complies with the "Web Content Accessibility Guidelines 2.0" (WCAG 2.0) defined by the World Wide Web Consortium (W3C). In addition to these rules, HSBC websites are regularly reviewed by an independent firm. These reviews are defined and conducted directly by the Marketing Department at Group level for public websites.

Furthermore, 157 of the bank's 286 branches are now accessible to people with disabilities. The remaining 129 branches will be adapted gradually.

Fair business practices: ensure business integrity through governance, compliance and respect for human rights

Governance

Corporate governance is one of the cornerstones of HSBC France's strategy. Since its integration within the HSBC Group, the bank has continued to apply the corporate governance rules of listed companies, while taking into account its unlisted subsidiary status.

In accordance with French law no. 2008-649 of 3 July 2008, transposing the European directive 2006/46/EC of 14 June 2006, the company refers in the first instance to the Code of Corporate Governance for listed companies published by AFEP and MEDEF in December 2008 and last revised in June 2013.

However, since HSBC France is a 99.9 per cent subsidiary of the HSBC Group and its shares are not listed on a regulated market, certain principles of the Code of Corporate Governance had to be adapted.

In some areas, HSBC France applies the UK Corporate Governance Code, to which its parent company, HSBC Holdings plc, refers.

At 31 December 2014, HSBC France's Board of Directors consisted of eighteen Directors: three people who hold positions within the HSBC Group, three members of HSBC France's Executive Committee, eight independent Directors and four Directors elected by the employees. Not including Directors elected by the employees, the Board comprises three women and eleven men. In addition, the Board of Directors is assisted by two committees: an Audit and Risk Committee composed of independent Directors and a Nomination and Remuneration Committee, chaired by an independent Director. The Board of Directors receives regular updates on the company's corporate sustainability policy and on the way the bank's business lines manage the social and environmental impact of their activities.

Corporate, social and environmental responsibility (continued)

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

Under the Global Standards programme implemented by the HSBC Group worldwide, the Compliance function evolved in 2014, with the creation of two separate units: Financial Crime Compliance and Regulatory Compliance. The aim of this development is to create a homogeneous structure at local, regional and global level, and to better align the Compliance function to the bank's various business lines and functions.

In Regulatory Compliance, HSBC Group is rolling out a "Conduct Risk" framework for better control of customer protection arrangements. The framework sets out HSBC's commitments in terms of fair and equal treatment of customers, notably:

– the provision to customers of clear, accurate, precise and non-misleading information on the nature and associated risks of products;
– offering to customers only those products which generate value for them and are suited to their risk profiles to avoid the risk of misselling;
– ensuring that management of investments is in accordance with commitments, while charging for the products in a fair manner relative to the services provided and that is equitable across all customers.
– ensuring that market integrity rules are observed in the relevant business activities.

In Financial Crime Compliance (anti-money laundering and anti-corruption efforts, international financial sanctions), the Global Standards programme aims to ensure that each HSBC Group entity has the best standards in terms of preventing the risk of financial crime. The programme is based on the following principles:

– We only want to work with customers we know and trust;
– Everywhere we operate, we will maintain consistently high controls in terms of financial crime;
– Managing financial crime risk must be second nature, in the same way as managing credit risk;
– Each and every one of us must exercise our judgement. Rules and manuals alone are not enough;
– We protect ourselves against financial crime by working together.

A major training effort supports the deployment of this programme. More than 9,600 employees of the bank received some form of training in 2014, mainly on money laundering prevention, international financial sanctions, but also on the company's values.

The case management related to HSBC Private Bank Switzerland was addressed in the HSBC France Annual Report and Accounts 2013 in the paragraph "Legal risks and litigation management" and again in this report page 102.

2014 highlights

Embedding corporate sustainability in the business lines
The three key trends that shape the way that corporate sustainability issues are embedded in the banking business in France are:

– the need to anticipate the impact of climate change on the bank's activities;
– the increasing attention paid to environmental, social and governance issues in the assessment of company performance; and
– the development of the social and solidarity-based economy.

Sustainability risk management
Our approach to managing sustainability risk is fully aligned with the Group's approach described on page 56.

For several years now, HSBC has been measuring clients' compliance with its sustainability risk policies. In 2014, the HSBC Group commissioned PWC to carry out an external audit on compliance with its forestry policy in several countries including France. 239 business relationships were audited: 20 per cent of them were not concerned, 36 per cent were compliant with Group standards, 25 per cent were not compliant and 19 per cent required a more in-depth review. Following this external audit, HSBC France reviewed its customers that did not comply with the new internal policy on forest land issued in March 2014.

At 30 June 2014, 21 relationships were identified as non-compliant. Since then, 10 of them have become compliant, 4 are in the process of becoming compliant, 1 has been terminated and the remaining 6 are under review. Apart from procedures required by the Group that involve the implementation of sector-specific policies, Global Banking and Markets teams are made aware of sustainable development risks through awareness-raising sessions, in coordination with the Sustainability Risk managers of the bank's credit risk teams. In Commercial Banking, the relationship managers have received ad hoc training.

Climate Business
Since 2011, HSBC France has closely monitored the main economic sectors that generate innovations and climate change solutions, in order to understand better how the bank can support the companies concerned in their domestic and international development.

In practical terms, this "Climate Business Sector" initiative is adapted to the specific features of each business line.

In Commercial Banking, the project is monitored by a co-ordinator for each market segment and by the Credit Department. Champions have been appointed from among the business relationship managers in the main French cities and they received specific training in this area in the Autumn. This theme is monitored regularly by the business line's executive committee in co-ordination with the Sustainability Department. To support this system, in addition to technology guides (on solar, wind, water, waste, eco-industries in France, biomass, electric vehicles and, since 2014, sustainable cities) and market summaries (financing, bank competition and legislative environment), market updates are published regularly by the Group as well as research reports by the HSBC Climate Change Centre of Excellence.

In Global Banking, HSBC was involved throughout 2014 as an expert in various conferences on issues such as financing renewable energies, green bond issues and financing sustainable cities see section on "Communications and events", page 63.

Thanks to its expertise in these areas, HSBC France has, for example, successfully handled green bond issues for two French regions and a development agency, raising EUR 1.62 billion mainly from SRI investors and thereby enlarging the pool of potential investors for these issuers.

In 2014, HSBC France continued its participation in the working group set up in 2013 by the *Institut de la Gestion Déléguée* (IGD)[1] on "sustainable cities", which analyses emerging technological innovations in this area as well as the economic models and legal frameworks that enable their implementation. HSBC, the only bank in the group, aims to enhance the viability and financial structuring of various types of project that will be identified in France or abroad, particularly in emerging markets.

Growing importance of social, environmental and governance issues when assessing company performance

Article 225 of the Grenelle 2 law, which makes it compulsory to supply and verify governance, social and environmental information, supports a fundamental trend characterised by the growing interest of asset management firms, notably, in the UN Principles for Responsible Investment (PRI), along with the growing expectation of investors for long-term issues to be included in the assessment of business performance. HSBC France supports these expectations through various services and products.

In 2014, HSBC France's cash equity team continued to put its SRI (Socially Responsible Investment) asset-management clients in touch with companies' sustainability officers and external experts, who deal with various subjects such as stranded assets and the financing of energy needs by 2035 from a climate change perspective.

Application of ESG criteria in portfolio management

HSBC Global Asset Management signed the Principles for Responsible Investment in June 2006. The first of the six principles states that "we will incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes".

To meet these obligations, HSBC Global Asset Management (France) relies on a team of equity, credit and ESG analysts set up in 2012 to align its practices with the Principles, which cover all aspects of asset management. For each new investment case, the aim is for HSBC's in-house research team to produce, in addition to financial analysis, an ESG analysis that supports the qualitative analysis and investment decision-making process.

A 20-hour e-learning programme for all asset managers and ESG champions (a total of 61 people) began in 2013 and was completed in 2014.
HSBC Global Asset Management (France) carried out its three-yearly review of external extra-financial research providers. Various actions are currently being implemented and will be completed in the first quarter of 2015. It has been decided to extend the scope of ESG research to issuers in developed and emerging countries where the asset management business operates. After a strict selection process, MSCI ESG Research and Global Metrics International (GMI) were selected and the partnerships with Ethix SRI Advisors broadened with the aim of better identifying any violations of the ten Global Compact principles by companies. These three agencies provide ESG data on more than 6,000 issuers. Lastly, through Oekom, the teams have access to ESG analyses on 56 countries compared with 28 previously and on more than 200 unlisted issuers.

As a result, a new project has begun to optimise ESG research tools with the aim of facilitating access for the entire front office (more than 500 people) and the research team. The project started in 2014 and will continue throughout 2015. Once completed, asset managers and analysts will have improved resources to help them embed ESG considerations more easily in their overall analysis.

Update on Socially Responsible Investment Funds (SRI)

The HSBC SRI range has been designed to meet the needs of all HSBC Global Asset Management's client segments – institutions, asset managers, multi-manager funds, corporates, associations and retail investors. In 2014, two flagship SRI funds – *HSBC Actions Développement Durable* and *HSBC Oblig Développement Durable* – began to publish more detailed financial and extra-financial information in their monthly reports.

Assets under management

In 2014, *HSBC Actions Développement Du*rable recorded a 1.3 per cent decrease in assets under management to EUR 236 million, and *HSBC Oblig Développement Durable* an increase of 19.7 per cent to EUR 86 million. As regards *HSBC EE Diversifié Responsable et Solidaire,* the fund reserved for employee savings plans, assets under management have grown every year since its inception, rising from EUR 52 million to EUR 67 million in 2014. As in 2013, although bond, equity and diversified SRI funds recorded growth in 2014, overall SRI assets under management fell for the third consecutive year. This was

1 *IGD is a business foundation that brings together public- and private-sector entities that want to optimise production of general-interest services through the right combination of public- and private-sector expertise.*

Corporate, social and environmental responsibility (continued)

due to the very low money-market interest rates, which resulted in a significant reduction in money-market fund assets, and the SRI money-market fund was no exception.

Performance
Year-on-year returns at end-December 2014 were satisfactory, and in line with those achieved in traditional asset management. In Morningstar's[1] "Eurozone Large-cap Equity" category, *HSBC Actions Développement Durable* ranked in the 3rd quartile over one year, in the 2nd quartile over three years and in the 3rd quartile over five years. In Morningstar's "EUR Diversified Bond" category, *HSBC Oblig Développement Durable* ranked in the 1st quartile over one year, three years and five years.

Employee savings
As regards SRI employee savings plans, the highlights in 2014 were as follows:

– The responsible and solidarity-based range was broadened to encompass the bond fund, which is now called *HSBC EE Oblig Euro Responsables et Solidaire*.
– The Inter-Trade Union Committee on Employee Savings Plans (*Comité Intersyndical de l'Epargne Salariale* - CIES) has renewed its accreditation for HSBC Epargne Entreprise (France)'s SRI employee savings range, which includes four multi-company sub-funds: *HSBC EE Actions Responsables*, *HSBC EE Diversifié Responsable et Solidaire*, *HSBC EE Obligations Responsables* and *HSBC EE Monétaire Etat*.
– Over 2014, the number of companies holding assets in the SRI employee savings funds increased by 6.40 per cent, the number of employees investing in the SRI funds increased by 14.51 per cent and assets under management increased by 11.78 per cent. Assets under management of the CIES certified range amount to EUR 197 million. Assets under management have grown steadily each year, confirming the growing interest in and relevance of an SRI approach in employee savings and pension solutions.

Development of social entrepreneurship and of a social and solidarity-based economy
A socially responsible company puts people and its social impact at the heart of its business plan. It is therefore at the crossroads of three main movements that are the social and solidarity-based economy, the social business concept (understood to be a business that is self-sufficient financially, and indeed profitable, and that aims to address a given social objective) and the adoption of a market-based approach to social action, including the transition from a model based on grants to a model based on calls for projects. HSBC has a role to play in its development with the objective of creating a fairer society.

As regards microfinance, HSBC France's partnership with the ADIE (*Association pour le droit à l'initiative économique*) began in 2007 and continues in 2014 with an annual credit facility of EUR 2 million. This has enabled 303 microentrepreneurs to launch businesses and 420 disadvantaged people to return to work through personal microloans.

HSBC France also owns interests in social-impact venture capital funds, including EUR 1 million in *Financités* held since 2008, EUR 500,000 in *Business Angels des Cités* held since 2010, and EUR 1 million in Citizen Capital held since 2011.

The solidarity-based investments of the *HSBC EE Diversifié Responsable et Solidaire* fund were allocated as follows in 2014: EUR 309,800 to SIFA, EUR 1,500,000 to ADIE and EUR 2,150,000 to *Habitat et Humanisme*, an increase of 20 per cent over 2013.

In 2014, Private Banking continued its approach, initiated in 2011, of developing its range of philanthropic services. HSBC provides its Private Banking clients with access to its partners and contacts, its banking network, expertise and the experience and knowledge of its bankers to support them in their philanthropic initiatives and to help them to build or develop their projects. As part of this approach, the bank offers its clients the opportunity to take part in "*Rencontres des Philanthropes*", an exclusive and discreet circle that meets quarterly to discuss various issues with a philanthropist and an expert.

Operational Sustainability

2012-2020 Objectives
To support the HSBC Group's Sustainable Operations strategy described on page 56, which aims to cut annual carbon emissions from 3.5 tonnes per employee in 2012 to 2.5 tonnes by 2020, HSBC France is focusing its attention on four objectives:

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

Improving energy efficiency – sustainable use of resources
In 2014, efforts focused on renovating buildings, optimising floorspace, promoting remote working and, for the second time, achieving "high performance" accreditation as part of the *Attestation de Qualité Environnementale d'Utilisation* (environmental quality certification for building usage) for the Cœur Défense building, issued in August 2014 by Certivéa. Through this initiative, HSBC France has signed a commitment with the owner and the manager of the building to participate in

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efforts to control its environmental footprint in these premises. HSBC France is the first occupant to achieve this level of certification.

Water consumption
The figures for HSBC France water consumption have decreased, primarily due to better data collection, which has led to more reliable results that are more in line with the water consumption reduction targets.

Greenhouse gases and carbon footprint
In accordance with French decree no. 2011-829 of 11 July 2011 on greenhouse gas emission footprints and the local climate energy plan, HSBC France compiled and published its reporting documents, which showed a clear reduction in tonnes of CO_2 equivalent produced for the third consecutive year.

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

The 2013 company's greenhouse gas emission footprint is available on HSBC France's website, in the "*Développement Durable*" section[1].

Reducing CO_2 emissions related to business travel
Between 2013 and 2014, HSBC France's CO_2 emissions from business travel fell due to a revised travel policy, efforts to monitor areas where the policy is being applied incorrectly and a fall in kilometres travelled by air, with a shift from air to train travel. Several memos have been sent out encouraging the use of alternatives to travel with the aim of significantly reducing travel and travel-related expenses. For example, use of telephone conference calls, webex and above all videoconferencing (using Movi on a computer or a videoconference room) has become increasingly widespread. HSBC France is one of ten companies involved in drawing up the La Défense Seine Arche intercompany travel plan (*Plan de Déplacements Interentreprises* - PDIE), covering its three central sites concerned. A transport survey in 2013 of 30,000 employees concerned by the initiative showed that there is significant scope for developing low-impact transport. An action plan was endorsed in 2014 by the companies and partners involved, setting out measures to promote remote working, improve the quality of transport options and the related digital information applications, and encourage the use of bicycles and car sharing (fleet of self-service and carpool vehicles).

Pollution and waste management

Reducing production of non-recycled waste
All central sites have waste collection points with selective sorting. The rate of waste recycling is improving continuously.

Reducing paper consumption and improving paper recycling
The various paperless projects continued in 2014. Special efforts have been made to rationalise correspondence and documents sent to our customers. 50 per cent of all retail customers now receive e-statements for their current and savings accounts, which economised on the use and transport of 2,610,000 sheets of paper and 1,740,000 envelopes in 2014.

For business clients, the move to double-sided printing for the monthly statement of electronic transmission charges has saved 125,000 sheets of paper a year. In addition, following the move to SEPA on 1 August 2004, domestic advice notes are no longer printed for direct debits issued or received, saving 316,000 sheets of paper in 2014.

The bank is in the process of eliminating or dematerialising HSBC printouts, including information systems developments to handle tasks on screen from existing applications. This initiative saved almost 3 million pages in 2014.

Protecting biodiversity
The HSBC Group, including HSBC France, contributes to protecting biodiversity through its environmental philanthropic programmes (see section on "Employee engagement through awareness and philanthropy"), its compliance with the Equator Principles and the application of environmental and social risk management procedures in its lending and project finance activities (see section on "Sustainable Finance", page 56).

Resources allocated to the prevention of environmental and pollution risks – Measures to prevent, reduce or repair emissions into the atmosphere, soil and water that may severely affect the environment – Consideration of noise and any other form of pollution specific to a business – Land use
HSBC France's main environmental or pollution risks stem from the businesses it finances, which are committed to managing environmental impacts as stated in the section on "Sustainability risk management", page 64.

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

- Computing waste is revalued or recycled by a company specialised in computer hardware reconditioning, which employs people with psychological disabilities or on inclusion programmes;
- The proportion of recycled waste was 87 per cent in 2014, a 9 point improvement compared with 2013;
- Valeurs Mobilières Elysées (formerly known as Nobel), a wholly-owned subsidiary of HSBC France acquired in 1986, was initially a manufacturing company that ended its manufacturing activities in 1965.

1 *More information on hsbc.fr.*

Corporate, social and environmental responsibility (continued)

Pursuant to a prefectoral order, Valeurs Mobilières Elysées has, for several years, measured the quality of groundwater in the area in which it conducted its manufacturing activities.

The measurements for 2013 show a satisfactory quality of groundwater, with concentrations below the required levels for most of the relevant parameters. These results are in line with those of previous years.

However, the measurements obtained by two of the piezometers show an unusual increase in some concentrations, which could be due to environmental disruption during drilling works.

Consideration of noise
Banking is a service activity without industrial process and therefore does not cause any particular noise pollution.

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

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

1 *DEFRA 2012 (upstream and combustion): 976 kg CO_2 equivalent per tonne of paper.*

Employee Support

The data below is supplied in accordance with article R. 225-105-1 of the French Commercial Code in application of article L. 225-102-1 paragraph 5 of the same Code.

Workforce at 31 December 2014 and changes since 2013

Employees – total

	2014	2013[1]	2012	2011[2]	2010[3]
Total HSBC France group	**9,793**	9,891	9,851	10,335	10,479
of which HSBC France	**9,144**	9,198	9,424	9,860	9,706
of which subsidiaries and branches excluding PLC	**649**	693	427	475	773

Employees – full-time equivalent

	2014	2013[1]	2012	2011[2]	2010[3]
Total HSBC France group	**9,402**	9,533	9,570	10,030	10,121
of which HSBC France	**8,771**	8,857	9,152	9,564	9,365
of which subsidiaries and branches	**631**	676	418	466	756

1 *HSBC Assurances Vie (France) became a subsidiary of HSBC France in 2013.*
2 *HSBC Private Bank France was integrated within HSBC France (via a legal merger) in 2011.*
3 *The fund valuation activity (HSBC Securities Services (France)) was sold to CACEIS in 2010.*

HSBC France's workforce contracted slightly in 2014, mainly due to retirements and employee resignations.

910 new employees were hired in 2014, comprising 502 on permanent contracts and 408 on fixed-term contracts, including 258 youth apprenticeship and work-study contracts.

961 employees left the company, with retirements making up 26 per cent of the total, the end of fixed-term contracts 40 per cent and resignations 18 per cent.

The retention rate among the best-performing staff was 98 per cent.

The structure of the workforce remained stable, with 68 per cent of staff having managerial status, and 50 per cent of managers being women.

At 31 December 2014, 1,083 employees worked under the voluntary part-time work agreement, equal to just under 12 per cent of registered employees.

According to DOETH 2013 definitions (*déclaration obligatoire d'emploi de travailleurs handicapés* - mandatory disability employment declaration), disabled people made up 2.5 per cent of the workforce, as opposed to the target of 6 per cent. As a result, HSBC France paid EUR 1.29 million to Agefiph in 2014.

At 31 December 2014, HSBC France employed 343 disabled people (including 151 who are no longer working).

Remuneration and incentive schemes

Salaries and salary developments
In 2013, in the absence of a collective agreement following the annual pay round, management unilaterally decided to implement a single measure for 2014. This measure involved setting aside a financial package to allow individual pay rises in the following situations:

– to promote professional equality between men and women (pay and career equality), as well as fairness between full-time and part-time employees;

– for employees having taken long-term maternity leave, adoption leave or parental education leave;
– for the assessment and possible revision of remuneration for employees with disabilities;
– for the assessment and possible revision of remuneration for employees over 50 years old who have not received a selective pay rise in the last five years (from 2009 to 2013);
– for the assessment and possible revision of remuneration for staff representatives, in accordance with the agreement of 30 October 2007 on the exercise of the right to organise within HSBC France.

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

Collective incentive plans
A new group employee profit-sharing and incentive system was negotiated in 2013. It covers all employees of HSBC France, HSBC Global Asset Management (France) and HSBC Assurances Vie (France), and applies for three years (2013, 2014 and 2015).

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

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

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

HSBC France company savings plan
HSBC France has a company savings plan in which staff can invest their profit-sharing or incentive payments or make a voluntary payment, and receive an employer top-up payment capped at EUR 2,424 per year.

The plan includes a range of 12 funds, three of which take into account corporate sustainability criteria in addition to the usual financial criteria.

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

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

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

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

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

The HSBC Group now recognises two categories of bonus shares:

– "Group Performance Shares", which have the following specific conditions:
  - a five year vesting period,
  - a restricted period beyond the vesting period, which runs until retirement,
  - a performance condition measured using eight indicators (four financial and four non-financial) from the performance scorecard of the manager concerned;
– "Restricted Shares", which are not subject to specific performance conditions, but which only vest if the relevant employee is still with the Group at the end of a period of one, two or three years

Capital increase reserved for employees (and retired employees) of the HSBC Group in France
Between 27 May and 13 June 2014, HSBC Group staff in France were again offered the opportunity to buy shares as part of a capital increase, via the tax-efficient employee savings plan.

Under this offer, employees were able to subscribe for HSBC shares with a discount of 10 per cent, up to an individual limit of EUR 3,000.

The total number of shares taken up under the offer was 1.76 million and the total investment was EUR 11.8 million.

Staff welfare
The consolidated amount of payments to the Works Committees and the Central Works Council, based on a percentage of the payroll, was EUR 3.2 million in 2014.

HSBC France also pays an amount equal to 0.05 per cent of its basic payroll into the HSBC France Employee Social Fund. A Joint Committee in charge of monitoring the fund defines its action policy and decides on the aid it grants to employees. The social fund may in particular provide financial support through the payment of healthcare costs for single-parent families struggling with their situation.

Corporate, social and environmental responsibility (continued)

In 2014, HSBC France also made EUR 10.5 million of socially-oriented payments (housing, back-to-school payments, transportation, childcare, parental allowances and HSBC France loyalty and long-service awards).

Work organisation

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

For employees whose working hours are recorded, working time is organised in one of two ways:

– on the basis of 38 hours per week, or 7 hours 36 minutes per day based on a 5-day working week. The number of RTT (reduction in working hours) days in 2014 was 15.5 days for a Monday-to-Friday working week, and 18.5 days for a Tuesday-to-Saturday working week;
– on the basis of 37 hours per week, or 7 hours 24 minutes per day based on a 4.5-day working week. The number of RTT (reduction in working hours) days in 2014 was 10 days for a Monday-to-Friday working week, and 12 days for a Tuesday-to-Saturday working week.

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

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

Overtime
HSBC France employees worked 88,298 hours in 2014, down 13 per cent compared with the same period of 2013.

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

Absenteeism
In 2014, the level of absenteeism due to maternity leave was lower than in 2013. The total days of absence due to maternity leave decreased by 9.0 per cent.

Absenteeism due to illness was higher than the previous year, with a rate of 3.5 per cent compared with 3.2 per cent in 2013.

Staff wellbeing and safety

Health and safety
HSBC France has Health, Safety and Working Conditions Committees (CHSCTs) for all its activities in France.

These CHSCT committees have greater resources than those provided for by law, particularly in relation to site visits and the number of representatives.

Agreements relating to the Works Committee and Employee Representative elections in 2013 have strengthened the resources of the CHSCTs, especially in terms of the number of representatives.

In 2014, the CHSCTs continued their involvement in consultations relating to ongoing branch renovations and improvements as well as supporting reorganisations relating to employee working conditions.

Monitoring stress
Since 2004 for employees in the Paris region and since 2010 for employees outside Paris, HSBC France has provided the opportunity to complete the Stress Medical Observatory's questionnaire during their periodic medical examination. An independent firm with IPRP (expert in occupational risk prevention) accreditation is in charge of processing the collected data using a scientific methodology.

The 2013 results revealed stable stress levels and lower anxiety and depression levels compared with previous years. They also revealed that the average stress level was lower than that of the IPRP firm's own panel.

Groups expressing less favourable psychological experiences were found among business line technicians processing banking transactions, support function employees and staff aged 50 years and over.

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

Framework for preventing work-related stress
A joint Steering Committee involving management, unions, CHSCT representatives, the Occupational Health Department and the Stress Medical Observatory, supported by the external consulting firm Technologia, continued its work on the working conditions of HSBC France employees.

Based on the results of the first Quality of Life in the Workplace survey, the Steering Committee adopted a new priority action plan to be implemented by four specific working groups comprising staff from the relevant businesses.

The plan aims to strengthen the autonomy of staff in the Retail Banking and Wealth Management and Commercial Banking businesses in a context of tighter regulation.

The work-related stress mapping exercise carried out in 2012 was updated twice in March and September 2014 via a questionnaire sent to a sample of 3,500 employees.

These efforts are intended to monitor the effectiveness of initiatives to enhance the wellbeing of HSBC France staff.

Accidents at work and occupational illnesses
Very few staff are affected by occupational illnesses. They account for an insignificant proportion of total illnesses.

In 2014, the work accident frequency rate (number of lost-time accidents / number of hours worked x 10^6) was 10.5 and the injury severity rate for work and travel-related accidents (number of days lost / number of hours worked x 10^3) was 0.3.

Work/life balance

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

As of 31 December 2014, 655 employees (7 per cent of the total workforce), primarily in support functions, have opted for this solution, which has been widely implemented within the HSBC Group, and their average level of satisfaction is high.

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

Furthermore, in October 2012, the bank's Senior Management sent a message to all executives in order to improve the adoption of best managerial practice, especially with regards to working patterns. Except in exceptional circumstances or crisis situations, employees must not be contacted during their holidays, weekends or outside of working hours and, except in emergencies, meetings must not be scheduled before 9am or after 6pm.

Training

In 2014, training initiatives focused on supporting and developing employee skills to help the HSBC Group continue implementing its strategy, based on growing its businesses and revenues, deploying its Global Standards and streamlining processes and procedures.

Carrying on from the Relationship Manager Proposition and diagnostic tools introduced in 2013, we brought in three levels of training (Basic, Intermediate and Advanced) for Wealth Management staff, aimed at increasing their technical knowledge and giving them a better understanding of tools and processes. The first cohort of people taking these courses included Premier Relationship Managers, Premier Wealth Relationship Managers, Professional Client Relationship Managers, Wealth Coaches and Wealth Experts, with the launch of mandatory new Basic-level training courses for all staff taking up a new position or new to the Group. There was also customised Intermediate and Advanced-level training to enable staff to enhance their technical skills.

Retail Banking continued to offer courses leading to qualifications. Several cohorts of Contact Centre staff attended an integration course, including training provided to new recruits and particularly new staff at our Fussy site.

Private Banking staff received Anti-Money Laundering & Sanctions training, with front office staff attending the course in September 2014 and obtaining certification from the International Compliance Association.

Commercial Banking continued to roll out training in strategic subjects (development of international connectivity, risk management, client relationship management), by focusing on increasing skills levels in relation to international activities, risk management and clients relationships.

Sales teams dealing with international clients were able to attend European training sessions, where they had the opportunity to work on strategic themes with staff from other countries.

AML & Sanctions training took the form of a 1-day classroom-based course, intended to give all staff in charge of a client portfolio the skills and confidence needed to identify risks of financial crime and take appropriate action.

In Investment Banking, major initiatives continued, focusing on technical themes relating to products, client relationships and management, and training was offered more broadly to new categories and levels of staff. AML & Sanctions training was organised for staff particularly concerned by that theme.

In 2014, HSBC Technology and Services (HTS) continued to develop its employees' skills, particularly in IT, project management, change management, risk management, credit management and client-relationship management. Some staff received training leading to internationally recognised qualifications.

Training for Support Functions focused on the specific technical requirements of their teams, as well as improving their English-language skills.

A training programme was devised for Human Resource and Risk Management staff to help them develop fundamental skills in terms of their impact on business lines, their advisory role, change management and operational excellence. The Finance Academy introduced a new range of financial training sessions.

HSBC France also continued to focus on developing the language skills, mainly in English, of staff working regularly with international contacts. As part of that initiative, the Training Department offered a varied set of training sessions responding to different needs (intensive courses, immersive learning, individual telephone-based sessions, individual classroom-based sessions). To complement these efforts, inter-cultural training was arranged to facilitate collaborative work within our international organisation.

Following on from initiatives taken in 2013 for staff with managerial responsibilities or having a major impact on their business lines or functions, a 1-day Values Led High Performance Culture training course was introduced for all Grade 3 and 4 staff in the fourth quarter of 2014. Courses will be completed by 31 March 2015, and around 1,200 staff will take part. This training forms part of the initiative that started in 2013 and aims to ensure that strategic messages regarding values are consistent, that they are disseminated and shared among all teams, and that appropriate behaviours are adopted as a result. In the same spirit, HSBC France's Senior Management decided to raise awareness among senior managers regarding Quality

Corporate, social and environmental responsibility (continued)

of Life at Work, in the form of a highly interactive half-day module.

The Group started reviewing the content of classroom-based and distance-learning Performance Management training in 2014, introducing new content regarding mid-year and end-of-year appraisals, the new ratings scale and target-setting.

Mandatory training for all staff was introduced at a rapid pace, including five e-learning modules in 2014. This initiative will continue in the next few years.

The Group also continued to support staff choosing to take CPD courses leading to banking diplomas. The diplomas available include the "*Brevet Professionnel de Banque*", a BTS certificate in Retail Banking, a Bachelor's degree in advising small-business clients, the ITB diploma, the CESB Master's degree in Senior Management and the CESB diploma in Wealth Management.

At HSBC Global Asset Management (France), training focused on the following areas:

– Derivatives used to manage interest-rate risk, helping staff in the Investments and Business Development departments to analyse and assess derivatives-based investment strategies;
– Commercial negotiation for the Internal Wholesale team, to increase synergies with Network teams;
– Asset Management-specific training (UCITS etc.), to develop technical skills among staff.
– AMF certification.

Staff at HSBC Assurances Vie received training in the following areas:

– Wealth management for the Wealth/LPI team.
– Commercial negotiation for the ISM team.
– Liberty Pilot, Insight and Dashboard for the ITO and Software Delivery teams.
– Insurance-specific training, to develop technical skills among staff.

At HSBC Bank Plc Paris Branch, training efforts focused on:

– information security, sanctions, competition law, anti-money laundering arrangements and reputational risk;
– for GCB 3-4 managers, "Quality of Life at Work" and "Values Led High Performance Culture".

Diversity and equality of treatment

The global corporate agreement on Diversity and Equality signed by unions and management in 2011 expired on 22 July 2014 and was renegotiated. It covers three issues: diversity of ethnic and social origins, gender equality and disability inclusion. In terms of gender diversity, the aim is to encourage equal career opportunity, pay, training and work/family life balance for men and women. HSBC therefore continues to improve paternity leave rights and has made quantified undertakings to increase the proportion of women with managerial grade, in areas where they are under-represented.

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

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

The other deals with pay, with a specific focus on wage equality. The bank has spent EUR 7.3 million in this area since 2004.
The same wage equality analysis is carried out for staff representative bodies, people with disabilities and employees over 50 years of age.

In 2014, HSBC France also continued to implement its action plan focusing on women's careers, which aims to help women gain access to top-level positions in the company. Measures include mentoring and individual and team coaching. This priority is shared by the HSBC Group, which has deployed it worldwide. Specific development initiatives for talented women, introduced in 2012 and 2013, were strengthened in 2014. Their aim is to overcome stereotyping and help women colleagues progress to the highest level.

An agreement in this area was signed with France's ministry for women's rights in 2013.

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

As of 31 December 2014, seven women sat on the HSBC France Executive Committee, and women accounted for 50 per cent of executives and 36 per cent of branch and business banking centre managers.

Integrating young people and passing on knowledge

A "*Contrat de Génération*" (generation contract) was signed by HSBC France and HSBC Global Asset Management (France) in September 2013. It is intended to support the sustainable integration of young people into the workforce and maintain employment among older people, thus making it easier to pass on skills and expertise within the bank. HSBC has made a commitment to ensuring that 25 per cent of all people recruited on permanent contracts until December 2015 will be aged 26 or under. At 31 december 2014, 184 young people aged 26 or under had been hired on permanent contracts.

The contract has also introduced a "senior career review" for staff aged 55-58. In December 2014, it was proposed to 881 employees who reached the relevant age limit in 2013 and 2014.

Efforts to combat discrimination

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

In 2014, HSBC France continued its internal communication campaign against discrimination, through posters and displays placed in walkways at head office and in branches. Meanwhile, e-learning training for managers continued in 2014.

Awareness training for all employees also continued, the aim of which is to make staff aware of stereotypes and prejudices in the way in which we view others as well as within the context of individual actions and decisions. The awareness campaign and training programme focus on various possible causes of discrimination: ethnic origin, gender, family status, sexual orientation, age, disability and working arrangements (remote working or not).

Career opportunity and development for people with disabilities is monitored separately.

In line with previous years, HSBC France conducted a "summer job" campaign in conjunction with its partner associations that work to promote equal opportunity: IMS – *Entreprendre pour la Cité*, *Mosaik-RH*, *Sciences Po*, *Les Orphelins d'Auteuil*, *Internats d'Excellence* and *Tremplin*. This initiative is intended to enhance diversity of origin among candidates for summer assistant jobs. In 2014, a total of 108 young people, including three with disabilities, were given summer jobs lasting between one and two months through these associations.

Disabilities

At 31 December 2014, HSBC France had 343 disabled employees, including 151 who are no longer working (second degree disability). In 2014, 30 new employees declared a disability.

As regards keeping disabled people in work, each situation is treated separately, in conjunction with the special disability advisor. If a workstation needs to be adjusted, the Disability Advisory Department takes care of it and pays for it. In 2014, 25 workstation adjustments were carried out, including ergonomic chairs, armrests, special mice, keyboards for partially sighted people, ZoomText magnification software, 24-inch screens and spelling software.

In terms of recruitment, HSBC continues to work with *Handiformabanque*, the *Tremplin* charity and a recruitment consultancy specialising in the CVs of disabled employees. Through these efforts, four employees were recruited on permanent contract, two on fixed-term contract and one on work-study contract in 2014.

To improve day-to-day living standards, 398 disabled employees or employees with a disabled close relative received "CESU" cheques (enabling them to pay for domestic help) financed entirely by HSBC, while six employees received support for buying individual equipment to alleviate their disability, such as hearing aids and other devices.

Employee engagement through awareness and community investment

In 2014, HSBC France donated more than EUR 2.5 million to charitable programmes. More than 1,440 HSBC France group employees completed 1,750 voluntary assignments, representing nearly 12,000 hours, including 72 per cent during work time. In line with the HSBC Group's policy, 76 per cent of donations were allocated to projects related to education (61 per cent) and the environment (15 per cent).

As regards education, the main initiatives in 2014 were as follows:

– Support provided by the *Fondation HSBC pour l'Education* for 55 educational institutions and charities, benefiting more than 17,700 children in deprived areas of mainland France;
– Increased support for projects encouraging equal opportunities for young people from deprived areas, particularly through tutoring. The *Fondation* supported three new projects in this area:
  - *Frateli*, an association that over the past ten years has developed a support programme focused on sponsoring high-potential students from modest backgrounds;
  - *Un Avenir Ensemble*, a foundation that offers employees the opportunity to give their time to deserving students from deprived backgrounds to help them in their studies and enter professional life;
  - *Fondation Croissance Responsable*, which gives teachers the opportunity to go on "observation placements" in businesses.

150 employees volunteered to tutor youngsters from deprived backgrounds in 2014;

– Development of financial education programmes with:
  - *Entreprendre pour Apprendre* to encourage business start-ups;
  - ADIE to help people develop their businesses;
  - CRESUS to help people who are in financial difficulties, have excessive debts or are excluded from mainstream banking;
– Raising the awareness of HSBC customers about initiatives taken by *Fondation HSBC pour l'Education* at a concert given by one of the charities it supports.

As regards the environment, the main event in 2014 was the deployment of the HSBC Water Programme in France:

– Continued training in water-related issues for 98 employees and their contribution to collecting data as part of Earthwatch's worldwide research into water quality;
– Support for the Surfrider charity to implement a pilot project called Riverine Input, which aims to identify aquatic waste in the Adour river basin and its origins;
– Renewal of the partnership with the ONF (French national forestry office) until 2017, which contributes to preserving and restoring 50 natural wetland sites and involves HSBC France employees and customers in nature projects across France. In 2014, 34 nature projects were organised with the ONF, enabling almost 600 employees to take part in restoring natural sites in French forests;

Corporate, social and environmental responsibility (continued)

– Support for research carried out by the 2° Investing Initiative think tank on the impact of climate change on financing activities, in addition to research already supported through the *Institut Paris Europlace*'s SRI Chair.

– Raising the awareness of some thirty customers about water-related issues during "customer club" meetings in their branches;

– Launch in 11 European countries of HSBC's "Water Explorer" environmental education programme, which has been implemented in France alongside our partner, the *Office français de la Fondation pour l'Education à l'Environnement en Europe* (Of-FEEE). The aim is to involve 600 schools over a two-year period in initiatives to save water and understand the related issues.

The HSBC Group in France also maintained its cultural policy in favour of talented young artists through the 19th edition of the *Prix HSBC pour la Photographie* and its 8th year of support for young musicians from the Aix academy. These two programmes help to expand the cultural horizons of people supported by the *Fondation HSBC pour l'Education.*

Methodological details on corporate, social and environmental information

Scope of reporting

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

Thus, corporate indicators concern the HSBC Group in France (excluding HSBC Assurances Vie (France) and HSBC Bank plc Paris Branch) or HSBC France, whereas environmental indicators concern the HSBC Group in France or HSBC France. The social indicators relating to “Company saving schemes: total assets of the SRI (Socially Responsible Investment) range” and to “Investment of the company savings fund *HSBC EE Diversifié Responsable et Solidaire* fund for the benefit of solidarity-based companies” are communicated within the scope of HSBC Global Asset Management (France).

Change in scope

For environmental indicators, entities consolidated or deconsolidated during the year are accounted for in the data reported on the date they enter the Group and until the date they exit.

Reporting period

The annual reporting period is the calendar year (from 1 January to 31 December). For environmental indicators, the reporting period is from 1 October 2013 to 30 September 2014. Paper consumption is reported from 1 July 2013 to 30 June 2014.

Reporting tools and processes

For environmental indicators

The reporting tool is that which is used by the HSBC Group, that is, Metrix, developed by Enablon. Its main functions include the collection of energy data (kWh) and CO_2 emissions, water (m^3), paper (tonnes), waste (tonnes), km travelled and CO_2 emissions, collection of other data: comments, operational surface areas (m^2), number of sites, workforce (FTE), initiatives, dual validation at country level, then at regional and global levels and, finally, dashboards.

For social indicators

The HSBC Group uses the Peoplesoft HR database. Information that appears in reporting documents is the result of querying this database.

Details on the definition of certain indicators

Environmental indicators

CO_2 emissions resulting from the consumption of electricity, gas, fuel oil, urban heating and air conditioning. Transport-related CO_2 emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the group car fleet. Energy consumption is partly estimated as invoicing and reporting periods do not overlap precisely.

Social indicators

The total workforce comprises employees under permanent and fixed-term employment contracts. Internship, temporary and suspended contracts, employees taking early retirement, employees on long-term sick leave, permanently disabled employees and expatriates are included. Holiday auxiliary staff are excluded.

Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. More than one hire will be recorded for a person hired more than once under a fixed-term contract during the reporting period. Likewise, an employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire.

The number of employees who work from home include those having signed an endorsement to their contract enabling them to work from home.

As regards training hours, 37 per cent of the stated figure relates to actual completed training at 31 July 2014 (HSBC France scope), while the other 63 per cent is based on estimates. Training provision figures will be validated as part of regulatory training-related disclosures in late April 2015.

Societal indicators

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

Corporate, social and environmental responsibility (continued)

Table of sustainability performance indicators of the HSBC Group in France

Indicator	Change 2014	2013	2012	Reference document GRI 3	ISO 26000	Global Compact Principle
Financial Indicators ((Scope HSBC France group*)						
1 Pre-tax earnings (EURm)	**232**	546	388			
Total shareholders' equity (EURm)	**5,732**	5,391	5,213			
Operating ratio (%)	**82**	71	76			
Liquidity ratio (%)	**128**	123	124			
Advances to Core Funding (ACF) ratio (%)	**101.0**	107.5	97.3			
Core Tier 1 Ratio (Basel II) (%)	**ND**	13.7	12.6			
Common Equity Tier 1 (CET1) Ratio (%)	**14.1**	12.7	ND[1]			
Sustainable Economy (Social indicators) (Scope HSBC in France*)						
2 Amount of loans granted to SMEs (European definition)(EURm)	**1,351**	1,115[2]	556.7	FS 6		
3 Number of financing for regional authorities made on the bond market	**30**	24	16			
4 Equator principles – Category A - number of projects financed and their value (EURm)	**ND[3]**	0 and 0	0 and 0	FS 3	6.3.5; 6.6.3	2
Equator principles – Category B - number of projects financed and their value(EURm)	**ND[3]**	0 and 0	0 and 0			
Equator principles – Category C - number of projects financed and their value (EURm)	**ND[3]**	0 and 0	1 and 128			
Consultancy (Number)	**ND[3]**	0	3			
5 Lines of credit allocated to Adie (EURm)	**2**	2	2			
Amount of microfinance loans made *via* ADIE partnership (EURm)	**1.818**	1.673	1.570	FS 7		
Number of microcredits disbursed (Adie)	**723**	605	593			
6 SRI assets under management (EURm)	**699**	762	825	FS 10, 11, 12		
Company saving schemes: total assets of the SRI range (EURm)	**197**	176	150			
7 Investment of the company savings fund HSBC EE *Diversifié Responsable et Solidaire* fund for the benefit of solidarity-based companies (EURK)	**3,960 1,500 Adie, 310 SIFA, 2,150 *Habitat et Humanisme***	3,309: 850 Adie, 309 SIFA, 2,150 *Habitat et Humanisme*	1,984: 350 Adie, 309 SIFA, 1,325 *Habitat et Humanisme*	FS 10, 11, 12		
Holdings in "societal" funds during the year	–	–	–	FS 7		
8 Number of customer complaints submitted to the Ombudsman	**734**	647	548	PR 8	6.7	
Number of complaints processed and signed by the Ombudsman	**164**	116	70		6.7	
9 Level of satisfaction of our retail customers: customers claiming to be "very satisfied" (Q4) (%)	**44**	48	50			
Customer recommendations during the past two years (Q4) (%)	**36**	36	40			
Environmental Footprint[4] (Scope HSBC in France*)						
10 Energy Consumption (GWh)	**59**	64	63	EN 3, EN 4	6.5.5	
Energy consumption in MWh/FTE[5]	**6.25**	6.67	6.58			
11 Transportation (Millions of km)	**39.33**	37.33	39.42	EN 16	6.5.5	7 & 8
12 Direct CO_2 emissions(Thousands of tonnes equiv. CO_2)	**7.50**	9.77	10.21			
- direct CO_2 emissions (Energy)	**3.24**	4.95	4.89	EN 16	6.5.5	7 & 8
- direct CO_2 emissions (transportation)	**4.26**	4.82	5.32			
13 Water Consumption (Thousands of m^3)	**152**	158	150	EN 8	6.5.4	7 & 8
Water consumption per FTE[5] (m^3)	**16.14**	16.53	15.67			
14 Paper Consumption(Tonnes)	**1,336**	1 555	1,535	EN 1, EN 2, EN 22	6.5.4	
% of FSC paper	**93[11]**	93	91			
15 Waste production (Tonnes)	**1,512**	1,490	1,729			
Waste production per FTE[5] (Kg)	**161**	156	181	EN 1, EN 2, EN 22	6.5.4	7 & 8
% of recycled waste/total waste	**86**	78	72			

* *HSBC France is a 99.9 per cent subsidiary of the HSBC Group. The HSBC France group corresponds to the perimeter of the consolidated financial statements and HSBC France corresponds to the perimeter of the individual financial statements. HSBC in France's scope of operations comprises the operations of the HSBC Group in France, which includes the HSBC France group, HSBC Assurances Vie (France), HSBC Assurances IARD (France) until May 2013 and the Paris branch of HSBC Bank plc (excluding intra-group financing costs).*

Indicator	Change 2014	2013	2012	Reference document GRI 3	ISO 26000	Global Compact Principle
Human resources and security (Scope HSBC France*)						
16 Total workforce[6] (Number):	**5,250 W /**	5,258 W /	5,410 W /			6
Women (W) / Men (M)	**3,894 M**	3,940 M	4,014 M	LA 14	6.3.7	7 & 8
Recruitments	**910**	642	548			
Dismissals	**73**	82	85			
17 Organisation of working hours						
Absenteeism[7] (%)	**3.5**	3.2	3.4			
18 Equal treatment:						
- number of persons with disabilities	**343**	334	310		6.3.7	6
- number of recruitments via the IMS and Mozaik HR	**101**	101	88		6.3.7	
- % of employees less than 30 years old	**13.0**	14.0	13.8			
- % of employees over 50 years old	**29.0**	30.5	29.6			
- % of women in management	**18.0**	16.6	17.5			
19 % of non-executive directors at 31.12						
(without function in the HSBC Group)	**44**	44	47		6.2	
20 Number of employees teleworking	**655**	582	498	LA 7	6.4.6	
21 Health and Safety:						
- number of fatal accidents at work	**0**	0	0	LA 7	6.4.6	
- number of accidents resulting in more than 3 days						
of work incapacity	**137**	115	119	LA 7	6.4.6	
- rate of work- and travel-related accidents[8]	**10.5**	9.1	9.3			
- severity rate of work-and travel-related accidents[9]	**0.3**	0.2	0.2			
22 Workforce split by status, gender and contract of employment (Number):						
Total Workforce	**9,144**	9,198	9,424			
- Of which unlimited term contracts	**8,686**	8,755	9,104			
- of which women managers	**3,061**	3,012	3,062			
- of which men managers	**3,084**	3,093	3,187			
- of which women clerical staff	**1,924**	2,005	2,156			
- of which men clerical staff	**617**	645	699			
- Of which fixed term contracts	**458**	443	320			
- of which women managers	**20**	32	24			
- of which men managers	**15**	35	28			
- of which women clerical staff	**54**	68	102			
- of which men clerical staff	**10**	26	29			
- of which women in apprenticeship	**191**	141	66			
- of which men in apprenticeship	**168**	141	71			
23 Training (Total number of hours)[10]	**306,000**	270,812	284,297			6
Commitment and patronage (Scope HSBC in France *)						
24 Sponsorship Budget (EURm)	**2.5**	2.3	2.6		6.8	
% of the sponsorship budget / pre-tax earnings		0.35	0.46		6.8	
% approx. employees involved in volunteer SD activities	**15**	13	20		6.8	
Number of hours of volunteer work during work hours	**8,725**	9,502	8,621		6.8	

1 *This ratio is calculated from June 2013.*
2 *Including leasing.*
3 *Details on 2014 figures will be published on the HSBC Group's internet site "Citizenship" Section in April 2015.*
4 *Figures calculated over the period from 1 October 2013 to 30 September 2014.*
5 *Full-Time Equivalent.*
6 *See also page 68.*
7 *Number of working days of absences due to sickness / number of total theoretical working days.*
8 *Rate of work- and travel-related accidents calculated using the following ratio: (number of accidents resulting in lost time/number of hours worked)*10^6.*
9 *Severity rate of work- and travel-related accidents calculated using following ratio: (number of working days lost due to work-and travel-related accidents/number of hours worked)*10^3.*
10 *Provisional figure.*
11 *Methodological change in 2014: Group now assess share of compliant paper (FSC, PEFC, Bonsucro) instead of share of FSC paper as in 2012 and 2013.*

* *HSBC France is a 99.9 per cent subsidiary of the HSBC Group. The HSBC France group corresponds to the perimeter of the consolidated financial statements and HSBC France corresponds to the perimeter of the individual financial statements. HSBC in France's scope of operations comprises the operations of the HSBC Group in France, which includes the HSBC France group, HSBC Assurances Vie (France), HSBC Assurances IARD (France) until May 2013 and the Paris branch of HSBC Bank plc (excluding intra-group financing costs).*

Corporate, social and environmental responsibility (continued)

Assurance report by the Independent Third Party on the consolidated environmental, social and societal information presented in the management report

This is a free translation into English of the Independent Third Party's report issued in French and it 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.

Year ended 31 December 2014

To the shareholders

In our capacity as Independent Third Party, accredited by the COFRAC registered under number 3-1049[1], we hereby present to you our report on the consolidated environmental, social and societal information (hereinafter the "CSR Information") for the year ended 31 December 2014, presented in the management report. This report has been prepared in accordance with Article L. 225-102-1 of the French Commercial Code.

Responsibility of the company

The Board is responsible for preparing the company's management report including CSR Information in accordance with the provisions of Article R. 225-105-1 of the French Commercial Code and with the guidelines used by the company (hereinafter the "Guidelines"), summarized in the management report and available on request from the company's head office.

Independence and quality control

Our independence is defined by regulations, the French code of ethics governing the audit profession and the provisions of Article L. 822-11 of the French Commercial Code. We have also implemented a quality control system comprising documented policies and procedures for ensuring compliance with the codes of ethics, professional auditing standards and applicable law and regulations.

Responsibility of the Independent Third Party

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

– attest that the required CSR Information is presented in the management report or, in the event that any CSR Information is not presented, that an explanation is provided in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code (Statement of completeness of CSR Information);
– express limited assurance that the CSR Information, taken as a whole, is presented fairly, in all material respects, in accordance with the Guidelines (opinion on the fair presentation of the CSR Information).

Our work was performed by a team of approximately five people between October 2014 and February 2015 and took around five weeks. We were assisted by our specialists in corporate social responsibility.
We performed the procedures below in accordance with professional auditing standards applicable in France, with the decree dated 13 May 2013 determining the manner in which the independent third party should carry out his work, and with ISAE 3000[2] concerning our opinion on the fair presentation of CSR Information.

1 – Statement of completeness of CSR Information

– On the basis of interviews with the individuals in charge of the relevant departments, we reviewed the company's sustainable development strategy with respect to the social and environmental impact of its activities and its societal commitments and, where applicable, any initiatives or programmes it has implemented as a result.
– We compared the CSR Information presented in the management report with the list provided in Article R. 225-105-1 of the French Commercial Code. For any consolidated information that was not disclosed, we verified that the explanations provided complied with the provisions of Article R. 225-105, paragraph 3 of the French Commercial Code.
– We verified that the CSR Information covers the consolidation scope, i.e. the company, its subsidiaries as defined by Article L. 233-1 and the entities it controls as defined by Article L. 233-3 of the French Commercial Code, within the limitations set out in the methodological information presented in the chapter related to environmental, social and societal information of the management report.

Based on these procedures and taking into account the limitations mentioned above, we attest that the management report includes the required CSR Information.

1 *Details available on www.cofrac.fr.*
2 *ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.*

2 – Reasoned opinion on the fairness of the CSR Information

Nature and scope of the work

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

– assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, impartiality and understandability, taking into account best practice, where appropriate;
– verify that a data-collection, compilation, processing and control procedure has been implemented to ensure the completeness and consistency of the Information and review the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and controls according to the nature and importance of the CSR Information with respect to the characteristics of the company, the social and environmental impact of its activities, its sustainable development strategy and best practice.

With regard to the CSR Information that we considered to be the most important:

– at parent entity level, we consulted documentary sources and conducted interviews to substantiate the qualitative information (organization, policy, action), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and consolidation of the data. We also verified that the data was consistent by cross-checking it with other information in the management report;
– at the entity level for a representative sample of entities selected[3] on the basis of their activity, their contribution to the consolidated indicators, their location and risk analysis, we conducted interviews to verify that the procedures were followed correctly and to identify any undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations made and reconcile the data with the supporting documents. The selected sample represents 93% of headcount, and 100% of quantitative environmental information.

Reporting scope	Social and societal indicators
HSBC France	Workforce split by status and gender Number of recruitments and dismissals Number of employees telecommuting Number of training hours Part of women in top management
HSBC Global Asset Management	HSBC "Epargne Entreprise Diversifié Responsable et Solidaire" fund for the benefit of solidarity-based companies Company saving schemes: total assets of the SRI range
HSBC in France (HSBC France, HSBC Assurances Vie and HSBC Bank plc Paris Branch)	Amount of loans granted to SMEs Number of financing for regional authorities made on the bond market

Reporting scope	Environmental indicators
HSBC in France (HSBC France, HSBC Assurances Vie and HSBC Bank plc Paris Branch)	CO_2 emissions related to Energy consumption (electricity/gas/fuel/heat/cold) and Transportation (plane/rail/road) Energy consumption per FTE Part of labelled FSC paper consumption within total paper consumption

1 *HSBC Group in France, HSBC France, HSBC and Insurance subsidiaries, HSBC Global Asset Management (France).*

Corporate, social and environmental responsibility (continued)

Qualitative Information	
Social aspects	Social dialogue Wage policy Diversity and Equality policy
Environmental aspects	Environmental policy Consumption of raw materials Energy consumption
Social aspects	Territorial, economic and social impact of the company activity on the local populations Purchasing policy Action implemented against corruption Actions of partnership and sponsorship

For the other consolidated CSR information, we assessed its consistency based on our understanding of the company.

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

We believe that the sampling methods and sample sizes used, based on our professional judgement, were sufficient to enable us to provide limited assurance; a higher level of assurance would have required us to carry out more extensive work. Due to the use of sampling techniques and other limitations intrinsic to the operation of information and internal control systems, we cannot completely rule out the possibility that a material irregularity has not been detected.

Conclusion

Based on our work, we did not identify any material anomalies likely to call into question the fact that the CSR Information, taken as a whole, is presented fairly in accordance with the Guidelines.

Appointed Independent Third-Party Auditor
French original signed by:
Paris-La Défense, on 27 February 2015

KPMG S.A.

Anne Garans
Partner
Climate Change & Sustainability Services department

Pascal Brouard
Partner

Risk management and control within the HSBC France group

All the HSBC France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of different types of risks.

In compliance with the requirements of regulation 97-02 (to which the French order of 3 November 2014 substituted), and the demands of the HSBC Group, the HSBC France group has established a permanent control and risk management system as set out in the Chairman's report on the internal control procedures and risk management procedure[1]*. This framework relies on a three lines of defence structure.*

The second line of defence comprises functions whose role is to ensure that risk appetite statement is observed in relation to the risks they are responsible for overseeing. They are responsible for developing policies and standards required to manage risks within risk appetite and tolerances, oversee their effective implementation and objectively monitor and challenge the performance of risk and control activities conducted by the businesses, HSBC Technology and Services (HTS) and other functions, e.g. by critically reviewing risk and control assessments, key risk indicators and other review work.

RISKS RELATING TO GLOBAL FRAMEWORK

Macro-prudential, regulatory and legal risks

Financial service providers face increasingly stringent and sometimes costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery.

Extensive changes to the Banking Industry, increasing expectations from regulator and structural reforms presents risk relating to the extent and pace of change to be implemented and the pressure of ensuring all regulatory deadlines.

Since 4 November 2014, the European Central Bank (ECB) has become the main supervisor of HSBC France.

Macro-economic and geopolitical

The macro economic challenges remain significant and could have a negative impact on HSBC France's revenues & LICs if not sufficiently anticipated / mitigated.

Unexpected outcomes arising from current geopolitical tensions, Eurozone membership uncertainties, political changes, currency and commodity price realignments, interest rate moves and the effectiveness of central banks' unconventional policies, to name but a few, all could materially affect economic conditions and confidence around investment and consumption decisions.

FINANCIAL RISK

Credit risk

In the HSBC France group, credit risk management is overseen by three separate functions within Risk functions:

- Wholesale Credit Risk Department: this combines the Credit teams (Approval and Early Collection units) allocated to Global Banking and Markets and Commercial Banking, Recovery for Commercial Banking clients and monitoring and IEC teams (Commercial Information and Research), combined within a "Risk detection and monitoring" unit. The "Models" team is also part of the Wholesale Credit Risk Department;
- Retail Credit Risk Department: in addition to a management and statistical portfolio analysis function, this unit comprises the Credit (approval) teams dedicated to Retail Banking and Wealth Management and Private Banking clients, an enlarged Retail Early Collection unit covering both Early Collection (*Service Recouvrement Amiable*) and Recovery units from Retail clients, and also Decision-making Systems and Processes teams;
- Risk Business Management, including the Risk Strategy Department: this unit groups together support and control functions, *i.e.* Risk administration, Reporting, Credit review team and Remote Monitoring, Accounting and Internal Control (Business Risk and Control Management) of Risk function. This entity also handles risk appetite, stress scenarios, emerging risks and regulatory oversight.

Independently of the businesses they relate to, these departments report directly to the Deputy CEO in charge of risks, and report functionally to the HSBC Group Risk Department Europe.

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally in the lending, trade finance, treasury and leasing businesses. The HSBC Group has standards, policies and procedures dedicated to monitoring and managing risk from all such activities.

Governance

HSBC Holdings plc is responsible for the credit risk management framework and provides centralised oversight and management of credit risk for its subsidiaries worldwide. In addition, each HSBC Group entity is accountable for:

- monitoring exposures to sovereign entities, banks and other financial institutions. HSBC's credit and settlement risk limits for counterparties in these sectors are approved and overseen by Group Credit Risk, to optimise the use of credit availability and avoid excessive risk concentration;

1 *See Chairman's report pages 44 to 54.*

Risk management and control within the HSBC France group (continued)

– monitoring intra-group exposures to ensure they are maintained within regulatory limits;
– controlling cross-border exposures, through the imposition of country limits with sub-limits by maturity and type of business. Country limits are determined by taking into account economic and political factors, and applying local business knowledge. Transactions with countries deemed to be at high risk are considered on a case-by-case basis.

The RMCs (Risk Management Committees), chaired by the Head of the business concerned or a delegate, attended by the Deputy CEO, provide the HSBC France RMC with information and approval on regards credit risk.

Credit risk management for each of the main businesses (Global Banking and Markets, Commercial Banking, Retail Banking and Wealth Management) is supervised by the HSBC France Risk Management Committee (RMC), which meets monthly, chaired by the Deputy CEO. The committee's minutes along with a summary are then submitted to the monthly risk monitoring committee meetings organised by the "Europe" Risk Management Department.

RMC is the main committee responsible for lending policy and permanent control for the Credit function in the HSBC France group. Its responsibility is to monitor the Wholesale Credit Risk and Retail Credit Risk Departments and the Credit function's activities, and to define the strategic direction of the HSBC France group's policy as part of the HSBC Group's general directives. It is informed by the two departments of the main lending decisions, the state and development of the various lending portfolios, the efficiency of the Basel II framework it uses to define its lending policy, and the permanent control results reported.

RMC attendees are informed of any incidents in the Credit function and of the corrective measures taken. A summary of this information is presented to the quarterly session of the HBFR Operational Risk Working Group.

The control framework

The Head of Wholesale Credit Risk and the Head of Retail Credit Risk are accountable for the permanent control in the HSBC France group's Credit function.

The two departments are the second line of defence of the Credit function. To ensure that information flows efficiently to all levels, controls are managed and adapted to the staff involved according to pre-established intervention thresholds for monitoring, provisioning, level of credit authority, etc.

Controls are performed by dedicated internal controllers who carry out second-level independent controls (internal control teams BRCM (Business Risk and Control Management) of Risk Business Management, Global Banking and Markets and Commercial Banking, Retail Banking and Wealth Management and subsidiaries), but also on agents also involved in operating activities (credit managers, credit analysts, branch managers and relationship managers and wholesale and retail risk monitoring departments) and the Credit review team.

The two Heads of Credit functions are informed of any major issues relating to these activities within their respective scopes.

Tools

In compliance with the French order of 3 November 2014 regarding internal control in banks regulated by ACPR, the French regulator, each entity in charge of credit risk has set up a system to cover all risks: risks inherent in lending activities have been listed in businesses risk maps for each business (Commercial Banking, Global Banking and Markets, Retail Banking and Wealth Management) and in Credit functions risk maps. These maps set out the required checks and reports required by the various participants and their frequency.

This structure is complemented by a permanent control framework for the central coordination of Basel II lending, involving:

– data quality (quality of the data used);
– Basel II monitoring (assessment of Use Test).

Internal control procedures are updated at least annually and validated by the Heads of permanent control for the Credit function by the review of risk maps. They are also updated whenever a major change is made requiring the revision of controls or coverage of new risks.

Description of lending procedures

Lending Credit authorities

The power to grant loans is limited to those holding lending credit authorities. Beneficiaries are notified in writing according to precise standards. Credit authorities are allocated to individuals by name and not position. There is no lending committee: decisions are made individually.

HSBC France's CEO holds credit authorities within the authority limits delegated by HSBC Bank plc. He has delegated his credit authorities to the Deputy CEO, who in turn has sub-delegated them to each of the Credit departments. For amounts in excess of these limits, cases are sent to the HSBC Bank plc Credit Department for approval and, above a certain threshold, to the HSBC Group (HSBC Holdings plc) Risk Department for an absence-of-objection statement ("concurrence").

Working in concert with the Deputy CEO, the CEO has also delegated some of his credit authorities in limited amounts:

– to the CEOs of banking subsidiaries;
– to the heads of commercial entities in the network and their employees.

A holder of credit authorities is able to grant loans in compliance with the HSBC Group and HSBC France group lending directives. In case the credit authorities are exceeded, the holder escalates the requested credit approval to the upper level.

The credit risk measurement and monitoring framework

The objectives of the monitoring and control of lending are:

– to anticipate adverse changes in our counterparties in order to enable us to take all steps to safeguard the interests of the HSBC France group;
– to identify within the branch network the main areas of risks according to the main risk indicators;
– to conduct credit reviews in the branch network.

The identification, measurement, monitoring and control of credit risk are carried out in compliance with the HSBC Group directives (Group Standards Manual and Functional Instruction Manuals), local directives (Wholesale Credit Local Procedure) and the policy laid down by the RMC risk management committees (Global Banking and Markets, Commercial Banking and Retail Banking and Wealth Management).

Everyone involved in the lending process is part of credit risk control; everyone involved in the approval process is accountable. However, the responsibility for overseeing a loan falls mainly on the entity that granted the loan. Furthermore, the management structure in that entity must play its part in monitoring and managing credit risk.

Second-level controls are performed by dedicated credit risk monitoring teams.

The credit review France team is involved in the second line of defence for credit risk. Since the merger with the Monitoring team in October 2012, Credit Review France performs field and remote credit reviews. A risk-based approach has been retained to select the entities to be audited and put together samples of credit cases to reviewed. It also works according to the principles of an audit cycle of a maximum of three years for Global banking, Leveraged Finance, HSBC Factoring (France) and Corporate Banking (CBC). For Banking Business Centres (BBC) and RBWM entities, the cycle is 2 years alternatively audited through field and remote reviews. However, the less risky entities are preferably audited through remote reviews. At the request of the Deputy CEO, in charge of risks, the team can perform ad hoc audits of various issues relating to credit.

Credit quality[1]

The HSBC Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of losses. For individually significant exposures, risk ratings are reviewed regularly and amendments are implemented promptly when necessary. Within the HSBC Group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models.

This risk rating system is based on the probability of default and loss estimates, in accordance with the internal rating methods required by the Basel II framework for calculating regulatory capital.

Guarantees received and other mitigating credit risk factors

The HSBC Group entities are required to implement guidelines on the acceptability of specific classes of guarantees received or credit risk mitigation and determine valuation parameters. Such parameters are expected to be cautious, regularly reviewed and supported by empirical evidence. Security structures and legal covenants are subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with local market practice.

Loans and advances[2]

Securities received are an important factor in mitigating credit risk. It is however the HSBC Group's policy to ensure that customers have the resources to repay their loans rather than to rely on securities. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured.

The principal types of security are as follows:

– in the personal sector, mortgages over residential properties;
– in the commercial and industrial sector, pledges on the business assets being financed;
– in the commercial real estate sector, pledges on the properties being financed;
– in the financial sector, pledges on financial instruments such as debt securities and equities in support of financial transactions;
– in the credit sector, credit derivatives including Credit Default Swaps (CDS) are also used to manage credit risk in the HSBC Group's loan portfolio.

The HSBC France group does not disclose the fair value of collaterals held as security on unpaid but not depreciated loans and advances or depreciated debts, as it is not available.

Other securities[3]

Other securities held as guarantees for financial assets other than loans and advances are determined by the structure of the instrument. Debt securities, treasury and other eligible bills are generally unsecured with the exception of Asset Backed Securities (ABS) and similar instruments, which are secured by portfolios of financial assets.

Derivatives[4]

The ISDA (International Swaps and Derivatives Association) master agreement or, in France, the FBF (*Fédération bancaire française*) contracts are the HSBC Group's preferred agreement for documenting derivatives activity. They provide the contractual.

1 *See the Consolidated financial statements, Note 36 Risk management page 196.*
2 *See the Consolidated financial statements, Note 33 Assets charged as security for liabilities and collateral accepted as security for assets page 190.*
3 *See the Consolidated financial statements, Note 36 Risk management pages 193 to 217.*
4 *See the Consolidated financial statements, Note 14 pages 146 to 152.*

Risk management and control within the HSBC France group (continued)

framework within which dealing activity across a full range of over-the-counter products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or if other pre-agreed termination events occur. It is common, and the HSBC Group's preferred practice, for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA master agreement. Under a CSA, collateral is passed between the parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

Deposit accounts
Settlement risk on multiple transactions, particularly those involving securities and equities, is substantially mitigated through assured payment systems or delivery *versus* payment mechanism.

Concentration risk[1]

HSBC France puts the greatest emphasis on the quality and integrity of its risky assets base (including off-balance sheet commitments) and has introduced strict limits to avoid undue concentration of risk.

Risk diversification is a core principle within the HSBC Group. Risk concentration can come in a number of forms, including: a large concentration on a single counterparty, excessive commitment to geographical areas or business sectors, as well as from risk deriving from a lending portfolio that is too concentrated or that has correlated exposures.

The LCEP document (Large Credit Exposure Policy) sets out the policy of the HSBC France group on controlling large risks, and it also forms part of the policy of HSBC Bank plc, HSBC Holdings plc and meets the requirements of the French banking regulator, the *Autorité de contrôle prudentiel et de résolution.*

The purpose of the LCEP is to ensure that:

– all HSBC France subsidiaries scrupulously adhere to both current policy and local regulatory requirements on large lending commitments in the jurisdictions in which they operate, and that they also apply the rules established by the local supervisory organisations;
– there is an appropriate framework procedure by which large commitments and concentrations of risk can be monitored and controlled;
– commitment to one individual borrower, or to a group of closely connected borrowers, should not become excessive in comparison to the capital base of HSBC France or HSBC Bank plc;
– excessive concentration and/or the combining of major exposures are excluded;
– commitments to geographical areas or business sectors should be strictly monitored to ensure that risky assets are diversified;
– reports to the Boards of Directors of HSBC France group subsidiaries, to HSBC France group Senior Management, and to the Boards of HSBC Bank plc and HSBC Holdings plc, and also to all supervisory bodies are compliant, consistent and in line with the HSBC Group policy.

To facilitate effective oversight and control, HSBC France, HSBC Bank plc and HSBC Holdings plc all hold centralised databases of information into which commitments are entered and by which they ensure that LCEP requirements are satisfied.

At the level of the Wholesale Credit Risk Department, the risk concentration is monitored using the supervision software programs, CARM and HUB (Vigirisk), which recover the authorisations and the balances outstanding from the operational systems and prepare monitoring reports.

Concentration risk by counterparty
Risk exposure limits are classified into three categories:

– category A: all loans recognised on the balance sheet and trade facilities such as guarantees and standby letters of credit;
– category B: off-balance sheet treasury risks such as currency and interest rate swaps;
– payment: principally intraday risk on payment commitments and foreign exchange business with or in the name of our customers.

Commitments to a single counterparty or group of counterparties, excluding financial institutions and central governments/central banks

- Requirements of the HSBC Bank plc and the Prudential Regulation Authority (PRA)

No exposure (total of categories A and B) may exceed 25 per cent of applicable capital, individual company or consolidated, of HSBC Bank plc without the prior agreement by the PRA.

To ensure that HSBC Bank plc complies with the PRA and LCEP requirements:

– authorisations (total of categories A and B), for HSBC France on the same counterparty or the same group of counterparties, in the normal course of its business may not exceed 25 per cent of HSBC France consolidated capital;
– HSBC France must obtain approval from HSBC Bank plc before taking additional authorisation exceeding 25 per cent per BC France consolidated capital.

There may be occasions where transactions exceeding this total (to a maximum of 50 per cent of HSBC France consolidated capital), are possible on condition that:

– the risk relates to foreign exchange transactions or interest-rate products;

1 *See the Consolidated financial statements, Note 36 Risk management pages 193 to 217.*

– the counterparty groups have an acceptable risk profile, have close relations with the HSBC Group, and are of significant importance to it;
– the risk is short-term.

Furthermore, settlement exposures within the normal course of operations should not exceed 25 per cent of HSBC France's consolidated capital. No settlement exposure should exceed 50 per cent of capital.

Any exposure representing more than 25 per cent of HSBC France's capital needs to be approved locally by the Deputy CEO for control of major risks, but also needs to follow the normal approval process from the usual authorities. However, for any exposure representing more than 50 per cent of HSBC France's consolidated capital, an appropriate exemption request must be sent for approval to the Regional department. This exemption should be documented and reviewed annually.

For LCEP limits, directives are sent by the HSBC Group and are transposed at the HSBC France level, then approved by the Chief Credit Officers and the Deputy CEO in charge of risks.

A quarterly report on all risks (the total of categories A and B, and payment risk on an individual basis and settlement risk applicable to these counterparty groups) exceeding 10 per cent of HSBC France's capital must be submitted to HSBC France Senior Management, to the Board of Directors of HSBC France, to HSBC France's RMC, to HSBC Bank plc's Wholesale and Market Risk RMC and to the Boards of Directors of HSBC Bank plc and HSBC Holdings plc. This quarterly report must also be submitted to the HSBC France Audit and Risk Committee.

- *Autorité de contrôle prudentiel et de résolution* (the French banking regulator) requirements

HSBC France group's net weighted risks (as defined by the *Autorité de contrôle prudentiel et de résolution*) in the course of its ordinary business must not exceed 20 per cent of HSBC France group capital as based on external investment-grade ratings and internal counterparty ratings and 15 per cent for counterparties that do not have an external rating or (in the absence of an external rating) an internal rating of investment grade level.

In no case, even if the commitment is compliant with *Autorité de contrôle prudentiel et de résolution* requirements, can any HSBC France group commitment be authorised if it would result in the requirements of either the HSBC Group or PRA being exceeded.

In addition to quarterly monitoring, a daily control procedure has been introduced at relationship manager level to ensure that no accounts for which they are responsible exceed the limits.

Commitments to financial institutions

Commitments (categories A and B) to financial institutions should not exceed 25 per cent of HSBC France's capital after deducting protection and risk deduction techniques eligible for the BIPRU (Prudential sourcebook for Banks, Building Societies and Investment Firms).

Within the framework of these global commitments to financial institutions, type A and B commitments to the following exposures should not exceed 10 per cent of HSBC France's capital within the normal course of operations:

– exposures with a maturity of more than one year;
– exposures to subsidiaries of financial institutions that are not financial institutions themselves.

Furthermore, settlement exposures within the normal course of operations should not exceed 25 per cent of HSBC France's consolidated capital.

Dispensations are nevertheless possible if it is necessary for HSBC France to maintain commitments above the aforementioned thresholds. However, each situation should be kept at the minimum and request of dispensation should be sent to the Regional department (HSBC Bank plc Risk) for approval and must be documented and reviewed each year.

These exemptions should not result in the failure to comply with the policy relating to control of major risks applicable to HSBC Bank plc.

As is the case for all Group entities, HSBC France has delegated responsibility to HSBC Holdings plc for approving all limits for banks and certain non-bank financial institutions, on the basis of the recommendations made by the Head of Wholesale Credit Risk and Relationship Managers in charge of banks.

All commitments to banks, building societies and non-bank financial institutions are controlled *via* the Carm for Banks application. HSBC Holdings plc's Risk Management Department sets the overall limit for each counterparty, and oversees and reviews these limits on a regular basis.

A quarterly statement of HSBC France's 50 largest commitments (both categories A and B) to financial institutions (excluding non-bank financial institutions) is given to HSBC France's Senior Management, the Board of Directors of HSBC France, HSBC France's RMC, HSBC Bank plc's Wholesale and Market Risk RMC, HSBC France's Audit and Risk Committee and the Boards of Directors of HSBC Bank plc and HSBC Holdings plc.

Sectorial concentration risk

It is an HSBC France group principle to avoid excessive concentration in any business sector, and to take corrective measures if necessary. The Wholesale Credit Risk Department is responsible for supervising compliance with this principle.

Some business sectors are governed by their own Caps and business sector directives laid down by HSBC France and/or the HSBC Group.

The software application used for monitoring industry concentration risk is Vigirisk, which centralises the balances outstanding from the various information systems.

The Caps are monitored quarterly and notified to Risk Management Global Banking and Markets. Any modifications to Caps must be approved by RMC Global Banking and Markets.

Risk management and control within the HSBC France group (continued)

Geographical area concentration risk
The overall risk limits for countries and central governments/central banks are determined by experience, current events and local knowledge as well as by the latest political, economic and market information. Consideration of the duration of the exposure is also very important in setting overall limits.

Commitments (categories A and B) should not exceed 25 per cent of HSBC France's capital apart from in the case of certain specific exposures:

– exposures to governments and central banks located in a country benefiting from a zero weighting according to the standardised methodology (S&P rating of AAA to AA-);
– exposures to multilateral development banks (as rated in the glossary of the PRA Handbook) and international organisations (as rated in the BIPRU) with a zero weighting;
– exposures to central governments and central banks of the European Union denominated in the local currency benefiting from a zero weighting (BIPRU 3.4.5).

However, it should be noted that regardless of how the country with zero weighting is qualified, all propositions are submitted for individual risk approval and authorisations are registered as normal.

The exposure risk on countries, central governments and central banks is monitored by the HSBC Group Risk Department, which establishes all overall limits. Overall limits for single countries are revised at least annually or at short intervals depending on circumstances. These limits are monitored continuously and adjustments may be made at any time.

A quarterly report on country cross-border risk exposure (categories A and B grouped) in excess of 10 per cent of HSBC France's capital is given to Senior Management, the Audit and Risk Committee and the Board of Directors of HSBC France, to HSBC Bank plc and HSBC Holdings plc.

Market risk

Market risk monitoring system
The risk management policy determined by HSBC France Senior Management oversees market risk by global limits which it regularly reviews, and also validates the proposals made by Market Risk Forum at the Market Risk Committee.

The HSBC Group assigns these global limits to HSBC France which are then divided by business and translated into operational limits within each entity by Market Risk Managers.

These global limits are defined in terms of lists of authorised instruments, underlying assets, markets and maturities, Value-at-Risk (VaR) limits, sensitivity levels, maximum loss and stress tests. They are revised at least once a year by the Market Risk Forum. The committee can amend them as required.

The process for allocating market limits and the permanent market risk control system as a whole involve a number of people from the HSBC Group and HSBC France, as well as specific committees, the roles of which are set out below.

Types of limits[1]
The maximum exposure and risk that HSBC France intends to bear are defined in a set of limits.

Local mandate limits, or Room Mandates
The HSBC Group annually allocates HSBC France and HSBC Bank plc Paris Branch a local room mandate per entity. It covers the most significant limits in terms of:

– Value-at-Risk, overall, total trading, sub-limits of VaR on interest rates, foreign exchange, equities;
– sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), and various "spread" factors;
– Exposure-At-Default (EAD) per bond issuers;
– maximum daily and monthly losses, referred to as "max loss";
– authorized instruments, per maximum maturity, market/currency and pay-off.

A "one pager" summary version for each Entity Room Mandate (HSBC France and HSBC Bank plc Paris Branch) is submitted for approval by the Deputy CEO in charge of risks and reviewed annually at the HSBC France Market Risk Committee.

There is also a more detailed version of each Entity Room Mandate, with greater granularity.

The limits set by HSBC France Market Risk Committee
Annually, this Committee reviews and sets "one pager" entity mandate limits for HSBC France and HSBC Bank plc Paris Branch on the recommendation of the Head of MRMaC France (Market Risk Management and Control).

Operational limits
Market Risk Management and Control (MRMaC) issues the Room Mandate limits for HSBC France and HSBC Bank plc Paris Branch as detailed operational limits or "desk mandates". These limits are allocated to each business unit (management unit) and, if necessary, broken down by sub-business. They cover the following indicators:

– sensitivity to risk factors including option factors (interest rates, government curve, inflation, volatility, exchange rates), including various "spread" factors;
– instruments authorized:
  - per maximum maturity,
  - per pay-off type;
  - additional limits governing specific activities.

These limits are set to be consistent with the VaR limits allocated by the HSBC France Market Risk Committee and those allocated overall to HSBC France.

1 *See the Consolidated financial statements, Note 14 Derivative instruments pages 146 to 152 and Note 32 Maturity analysis of financial assets and liabilities pages 187 to 190.*

Governance at the HSBC Group level

Wholesale and Market Risk (WMR)
In the HSBC Group, market risk supervision is carried out within the Wholesale and Market Risk Department. Its Head reports to the HSBC Group Chief Risk Officer. This department is in charge, *via* the Traded Risk entity, of allocating risk limits to the various HSBC Group entities by means of Site Entity Room Mandates once they have been approved by the HSBC Bank plc ALCO and RMC bodies. Similarly, this department is in charge of monitoring exposure at the HSBC Group level and of granting temporary limits. The Wholesale and Market Risk has a European dimension.

Europe Traded Risk
The Head of Europe Traded Risk, who reports directly to Global Head Traded Risk and to European Head Wholesale Credit and Market Risk, supervises the Room Mandates review process. He submits them for review by WMR. He is the functional manager of the Head of Traded Risk France.

HSBC France bodies and persons responsible for market risk monitoring

The HSBC France Market Risk Forum
Its task is to oversee all market risks, to ensure that appropriate controls are in place and to approve the main rules included in the supervision system.

The HSBC France Market Risk Forum is chaired by the Deputy CEO in charge of risks and meets monthly. It includes the heads of the businesses concerned by these risks and the main heads of the associated control functions: the Head of Traded Risk France, the Head of Quantitative Risk and Valuation Group (QRVG) and the Global Banking and Markets Product Control Officer. The Chief Financial Officer is also member.

MRMaC France acts as secretary of the committee.

The HSBC France Market Risk Forum reviews risks and results indicators, analyses any significant events observed during the previous month, including any breaches of “one-pager” mandate limits, (see page 86 “Types of limits”), instructs requests for permanent limits, and reviews temporary limits.

The committee also validates changes to calculation methods and risk measurement methods relating to guaranteed funds.

All entities generating market risks must apply for renewal or extension of limits annually.

The Risk Management Committee (RMC)
The Head of Traded Risk determines on a monthly basis the main points of the Market Risk Forum to be raised at HSBC France RMC in terms of market risk.

Information meetings with the CEO in charge of risks
Periodic information meetings are held with functions Traded Risk, QRVG, Product Control and ORIC.

Market Risk Management and Control
Within Wholesale and Market Risk (WMR), MRMaC designs, develops and implements the market risk management policy. This in particular covers:

– permanent monitoring of market risks;
– the development and implementation of procedures complying with regulatory requirements and with best practices;
– allocation of market risk limits within the HSBC Group compatible with the HSBC Group’s strategy and risk appetite;
– approval of new products;
– consolidation of exposure at the HSBC Group level of market risks and Value-at-Risk (VaR) calculations.

The Head of MRMaC France reports on a hierarchical basis to the Deputy CEO in charge of risks and permanent control and functionally to the Head of Europe Traded Risk.

The Head of Traded Risk France is responsible for both MRMaC France and Traded Credit France. He is responsible for permanent control of market risk in accordance with order of 3 November 2014, and for ensuring the consistency and effectiveness of the market risk control framework. He is referred to as Head of MRMaC France in this section on market risk.

In general, it is up to the Head of MRMaC France to provide Senior Management and HSBC France’s Market Risk Forum with comments and explanations concerning any significant breaches of max-loss and limits (One pager Room Mandate), or any positions he deems useful for Senior Management to know about.

The Head of MRMaC France is a member of the HSBC France Market Risk Forum, the HSBC France Balance Sheet ALCO and the HSBC France Capital Management Committee. He takes part in the periodic Senior Management information meeting organised by the Chief Operating Officer of Global Banking and Markets and in the HSBC France Audit and Risk Committee.

MRMaC is made up of two teams: the Market Risk Management (MRM), a team of seven people, and the Market Risk Control (MRC), a team of fourteen people.

Market Risk Management (MRM)
Market Risk Management (MRM) defines market risk mandate limits, deals with breaches of limits and exceptional situations, analyses positions, monitors positions depending on market movements, analyses the appropriateness of risk metrics (sensitivity, VaR, stress scenarios), defines and prepares a summary analysis of market risks for Senior Management, is involved in improving risk monitoring procedures and implements new indicators, as required by market developments.

The MRM team prepares the annual review of Room Mandates and, after in-depth analysis and approval from the HSBC France Market Risk Forum, submits it to WMR for approval *via* the Head of MRMaC EMEA.

Risk management and control within the HSBC France group (continued)

Market Risk Management then defines the one-pager and detailed Room Mandates, together with the desk mandates that apply to each business unit or management unit.

Market Risk Control (MRC)
The Market Risk Control teams are responsible on a day-to-day basis for checking adherence to all of the various market risk limits, regardless of the level of the market risk mandate and the nature of the limit in question. They report any breaches of these limits and also any consumption in excess of a warning threshold set at 80 per cent of the limit. They are responsible for reporting on weekly stress tests. They also carry out the backtesting.

Backtesting compares the *ex ante* calculated VaR figures with *ex post* daily P&L (Profit and Loss) figures. This comparison tests the ability of VaR to control the expected P&L variations and therefore helps assess the quality of the internal model. Any shortcomings in the VaR model will particularly come to light if the day's P&L figures exceed 99 per cent VaR or where VaR systematically and overwhelmingly exceeds daily P&L figures.

Backtesting is carried out both on profits and losses, using extreme quantiles (1 per cent and 99 per cent) of theoretical VaR distributions. The "backtesting violation" exceptions are reported and analysed.

The model is backtested by taking 99 per cent, one-day VaR figures and comparing them with daily results determined from changes in market prices assuming constant positions. Backtesting is done daily. Its results are reviewed monthly in a special HSBC Group committee and notified quarterly to the regulator.

The Market Risk Control structure is in line with that of the businesses.

A dedicated team produces and distributes HSBC France's consolidated market risk reports for Senior Management and for the HSBC Group Consolidation. The team is also responsible for producing the various periodical summary statements required for both internal needs (RMC pack, annual reports, etc.) and external needs, such as supervisory authorities.

Market Risk Control reports hierarchically to the Head of Traded Risk France and functionally to the Head Europe Traded Risk.

Traded Credit Risk
This team is reponsible for the daily monitoring of the exposures for the counterparty risk. It provides detailed and ad-hoc analysis to senior management, ensures that risk measures are fit-for-purpose and runs regular stress tests on the portfolio.

A dedicated team is focusing on the reporting of counterparty risk. It ensures completion of the scope, performs daily controls and produces daily risk report to the risk managers.

Both teams locally report into the Head of Traded Risk France who reports into the Deputy CEO in charge of risks and functionally to the EMEA Head of Traded Risk.

Quantitative Risk and Valuation Group (QRVG)[1]
Models developed by the front office research team are used for managing, valuing and assessing the risks of some derivative products. These models as well as VaR models are validated by an independent unit of experts, the Quantitative Risk and Valuation Group (QRVG). Its manager reports at a local level to the Deputy CEO in charge of risks and functionally to the Head of QRVG EMEA.

Product Control
Product Control is responsible for daily independent controls over the valuation of the positions. It produces daily and detailed explanations of the PL, and controls over off-market and off-margin transactions. It is also involved in the resolution of collateral disputes.

Definition, implementation and monitoring of Fair Value Adjustments are part of its remit, and it is also involved in the monitoring of the different recommendations issued by QRVG in terms of model limitation. Product Control, is also reconciling the FX positions and the PL with the teams in Central Finance.

Head of Product Control locally reports to HSBC France Chief Finance Officer, and functionally to the regional head of Product Control.

Valuation Committee
Reporting to the Head of Product Control, it includes QRVG, Product Control and MRMaC members, and representatives of the financial functions of Global Banking and Markets and front office representatives. It meets within the first two weeks of the following month for discussion between all parties of the parameters of the models used by the front office. Also examined during these meetings are changes in the main calibration and price control indicators. A review is carried out of operations that are specifically modelled in front office/back office systems: "booking" by the custodian, specific features not modelled in the systems.

This Committee also examines the methods for calculating provisions regarding market activities.

Market risk in 2014

2014 HSBC France Risk Mandate was in line with 2013's one. The European Central Bank (ECB) support to peripheral countries with the implementation to the dedicated purchase program on ABS and Covered business backed credit market and governments bonds in Eurozone.

2014 was marked by the exercise of Asset Quality Review (AQR) and Stress Test conducted by the ECB on all Eurozone banks. Market contribution on global results have been significant, the main factors being the impact of considering a default of the biggest counterparts on derivatives transactions, and a default of the biggest bond issuer held in trading books.

1 *See the Consolidated financial statements, Note 14 Derivative instruments pages 146 to 152 and Note 36 Risk management, pages 193 to 217.*

During 2014 year, HSBC France continued to play a major role as a platform for HSBC Group in Eurozone sovereign debt and Rate Derivatives in Euro and USD.

The daily Euribor submission is framed by a detailed procedure aligned to the standards defined by the Euribor Code of conduct issued by EMMI. The segregation of duties within the Balance Sheet Management desk prevents the conflicts of interest as the traders in charge of the submission are not managing the risk exposure of the bank. In addition, the submission process is monitored by several levels of independent controls

A particular focus has been made on Eurozone governments' debts risks products that continued to be in 2014 the main driver for market activity results.

Eurozone Sovereign exposures, in particular peripherals remained throughout 2014 within the allocated risk appetite limits.

HSBC France is working with the HSBC Group on an improvement of the existing methodology used in VaR in order to better take into account the current market environment where the level of rates is very low and sometimes negative.

Value at Risk (VaR) noticeably decreased in 2014 due to the combined effect of a decrease of main risk factors volatility, and decrease of exposures in trading books.

Regarding capital requirement (RWA Market) computation, HSBC France operated with the minimal coefficient in 2014.

Structural interest-rate risk

Structural interest-rate risk is managed in accordance with HSBC Group standards and centrally by the Asset, Liability and Capital Management Department which is part of the Finance Department (ALCM).

This structural interest rate risk stems from banking operations and structural components of the balance sheet and does not affect market operations. The main objective of HSBC France structural rate risk management is to suppress the sensitivity of net income to interest rates by managing the fixed interest rate gap (imbalance between expected fixed interest inflows and outflows by maturity ranges).

Structural interest rate risk arises mainly from the changes in the spread between future returns on assets and future costs of liabilities due to variations in interest rates. Analysis of this risk relies on methodology assumptions and modelling. The main assumptions are on the options available to borrowers on some products, for instance early repayment of property loans, and on the behaviour of depositors sight deposits. Most of the time, behavioural features will be different from contractual features but assess in a better way the actual underlying interest rate risk.

Behavioural features may be affected by the macoeconomic and interest rates environments. Hence, the effectiveness of the results' sensitivity reduction depends on these parameters. Residual sensitivity of profits is subject to monitoring within the framework of asset and liability risks management.

Governance

The body responsible for monitoring structural interest rates, liquidity and forex risks is the Balance Sheet ALCO which is headed up by the ALCM, and which reports to the *Risk Management Committee*. The Balance Sheet ALCO, which meets every month, brings together the CEO, the Deputy CEO in charge of risks, the Chief Financial Officer and the main heads of businesses and support functions concerned by ALCM. It examines risk indicators prepared by the Finance Department and analyses all significant changes in the financial and regulatory environment relating to these risks.

Its duty is to supervise balance sheet risks in a systematic manner, to ensure that appropriate controls exist, to approve on an annual basis the main management rules and limits included in the supervision framework and to regularly monitor each behaviour assumption and the interest rate liquidity and foreign exchange risk positions.

Any incidents observed during structural interest rate, liquidity and forex risk management processes and the corrective measures are presented to the Balance Sheet ALCO on a quarterly basis.

HSBC France analyses a number of indicators each month on a consolidated basis, allowing for effective monitoring of interest rate risk (including static gaps, calculating the sensitivity of results, stress scenarios, etc.).

The ALCM coordinates the work of the TALCO Rate, a sub-committee of the Balance Sheet ALCO, which meets monthly to supervise structural interest-rate risk management in the Commercial Banking & Retail businesses. The minutes of the TALCO Rate and all the above mentioned interest-rate risk indicators are submitted monthly to Balance Sheet ALCO for approval.

Interest-rate risk measurement and supervision system (and methods)

The interest-rate risk assessment process is performed monthly and is based on the Retail & Commercial Banking businesses interest rate gap analysis. Each month, a gap is calculated reflecting assumptions on changes in assets and liabilities, based on which hedges are set up.

Indeed, on the basis of information produced indirectly by the central systems and/or reports provided by the business entities, ALCM monthly measures and supervises structural interest-rate risk on an individual entity basis, where the risk is significant and on a consolidated basis for the other entities. Centralising the process enables ALCM to manage risk in the best way possible and to lay down rules for transferring this risk to the departments responsible for markets activities (Balance Sheet Management (BSM) and Global Markets (GM)).

Risk management and control within the HSBC France group (continued)

The net interest rate risk exposure is transferred to dedicated books managed by BSM and GM through a series of internal deals (cash or swap). Net exposure is managed through the use of derivatives. The breakdown of derivative instruments by types of contract used is set out in Note 14 of the Consolidated financial statements.

The structural interest-rate risk management model sets out a framework of operational limits to be adhered to in deciding upon new hedging transactions. As such, the new gap after hedging must ensure that the residual exposure by time-bucket is kept within defined limits.

A principal management tool for the structural interest-rate risk is the control of the interest-rate sensitivity of the projected net margin under varying interest rate scenarios. In addition, following simulation work carried out to comply with Basel II Pillar 2 requirements on the Economic Value of Equity, each month, HSBC France also measures the impact on equity of an across-the-board rise or fall of 200 basis points. These two risk indicators are presented and monitored to the Balance Sheet ALCO on a monthly basis.

Risk is measured and hedging transactions are carried out centrally by the ALCM: these activities rely on a set of formalised controls that are certified on a monthly basis. The process for the execution and accounting justification of hedging transactions is documented, key controls have been identified and certificates drawn up according to the HSBC Group standards, in accordance with the Sarbanes-Oxley Act.

Liquidity and funding risk

Liquidity risk is defined as the risk that HSBC France does not have sufficient financial resources to meet its obligations as they fall due, or will access to such resources only at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

The objective of the HSBC France's liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due, and that access to the wholesale markets is co-ordinated and cost-effective. To this end, HSBC France maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by maturity which are held to enable HSBC France to respond quickly and smoothly to unforeseen liquidity requirements.

HSBC France maintains strong liquidity positions and manages the liquidity profiles of its assets, liabilities and commitments with the objective of ensuring that its cash flows are balanced appropriately and that all its anticipated obligations can be met when due.

HSBC France adapts its liquidity and funding risk management framework in response to changes in the mix of business that the HSBC Group undertakes, and to changes in the nature of the markets in which HSBC France operates. The HSBC Group also seeks to continuously evolve and strengthen its liquidity and funding risk management framework.

HSBC France's liquidity risk is managed centrally by the Asset, Liability and Capital Management Department (ALCM) which is part of the Finance Department. The TALCO Liquidity chaired by ALCM, closely monitors the liquidity risk measuring systems and coordinates short-term management. This committee, which is a sub-committee of the Balance Sheet ALCO, is attended monthly by those responsible for carrying out operations (Balance Sheet Management), and for preparing reports and monitoring (Finance Department) and with businesses representatives. This committee is tasked with managing liquidity ratios, preparing the funding plan, looking into alternative sources of funding and handling any matters relating to liquidity.

Policies and procedures

The management of liquidity and funding is primarily undertaken locally in HSBC France in compliance with practices and limits set by the Balance sheet ALCO. It is the HSBC Group's general policy that each banking entity should be self-sufficient when funding its own operations.

Liquidity risk is monitored by tracking a number of indicators which are updated monthly for the TALCO Liquidity and for Balance Sheet ALCO. These indicators are as follows:

– monitoring the French liquidity ratio, as required by French regulations;
– producing PRA regulatory reports;
– Operational Cashflow Projections per various stress scenarios and considering the level of liquid assets necessary in relation thereto;
– monitoring balance sheet liquidity and Advances to Core Funding ratio against internal and regulatory requirements;
– maintaining a diverse range of funding sources with back-up facilities;
– managing the concentration and profile of debt maturities;
– managing contingent liquidity commitment exposures within pre-determined caps;
– maintaining funding plans;
– monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
– maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

Primary sources of funding[1]

Current accounts and savings deposits payable on demand or at short notice form a significant part of HSBC France's funding, and the HSBC Group places considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the Group's capital strength and liquidity, in line with its commercial policy.

HSBC France also accesses wholesale funding markets by issuing senior secured and unsecured debt securities (publically and privately) and borrowing from the secured repo markets against high quality collateral, in order to obtain funding for non-banking subsidiaries that do not accept deposits, to align asset and liability maturities and currencies and to maintain a presence in local wholesale markets.

Given HSBC France's need to renew its long term debt maturing in 2014-2015, HSBC France has issued EUR 2 billion of senior FRN of 2 year maturity. At the same time, customer deposits increased by EUR 0.7 billion to EUR 33.6 billion at 31 December 2014 compared with EUR 32.9 billion at 31 December 2013.

Pursuant to the objective of diversifying its sources of funding, HSBC France had led in 2011 the transformation of its French covered bonds structured programme into HSBC SFH (France), a "*Société de Financement de l'Habitat*" fully regulated by the ACPR. The outstanding amount of "*Obligations de Financement de l'Habitat*" issued by the structure as of 31 December 2014 stands at EUR 4.55 billion.

Liquidity and funding in 2014

The liquidity position of HSBC France strengthened in 2014, and it continued to enjoy strong inflows of customer deposits and maintained good access to wholesale markets. During 2014, the HSBC France's loans and advances to customers grew by 5 per cent and customer deposits by 2 per cent, however leading to a decrease in HSBC France's advances to core funding ('ACF') ratio to 101 per cent at 31 December 2014 (2013: 108 per cent) as core funding through debt increased more than advances.

Liquidity regulation

The European adoption of the Basel Committee framework via legislative texts known as the Capital Requirements Regulation ('the Regulation') and the Capital Requirements Directive ('CRD IV') were published in June 2013. This requires the reporting of the liquidity coverage ratio ('LCR') and the net stable funding ratio ('NSFR') to European regulators from January 2014, which was subsequently delayed until 30 June 2014. A significant level of interpretation is currently required to report and calculate the LCR as defined in the CRR text due to areas still to be addressed by the LCR delegated act, finalised in early 2015. In addition, the Basel Committee is still working on the calibration of the NSFR.

The management of liquidity and funding risk

Our liquidity and funding risk management framework ('LFRF') employs two key measures to define, monitor and control the liquidity and funding risk. The advances to core funding ratio is used to monitor the structural long-term funding position, and the stressed coverage ratio, incorporating Group-defined stress scenarios, is used to monitor the resilience to severe liquidity stresses.

Core deposits

A key element of our internal framework is the classification of customer deposits into core and non-core based on the expectation of their behaviour during periods of liquidity stress. This characterisation takes into account the inherent liquidity risk categorisation of the operating entity originating the deposit, the nature of the customer and the size and pricing of the deposit. No deposit is considered to be core in its entirety unless it is contractually collateralising a loan. The core deposit base is considered to be a long-term source of funding and therefore is assumed not to be withdrawn in the liquidity stress scenario that the bank use to calculate its principal liquidity risk metrics.

The three filters considered in assessing whether a deposit is core are:

– price: any deposit priced significantly above market or benchmark rates is generally treated as entirely non-core;
– size: depositors with total funds above certain monetary thresholds are excluded. Thresholds are established by considering the business line; and
– line of business: the element of any deposit remaining after the application of the price and size filters is assessed on the basis of the line of business with which the deposit is associated. The proportion of any customer deposit that can be considered core under this filter is between 55 per cent and 90 per cent.

Repo transactions and bank deposits cannot be classified as core deposits.

French regulatory ratio

HSBC France monitors the one month French regulatory ratio, as required by French regulators. Banks are required to maintain this ratio greater than 100 per cent at all times, to make sure that their liquid assets are sufficient to cover their liabilities as they fall due within one month. It is calculated for HSBC France on a stand alone basis and each subsidiary subject to it makes its own calculation. In 2014, the average liquidity ratio of HSBC France on a stand alone basis was 119 per cent, compared with 125 per cent in 2013.

Advances to Core Funding ratio

HSBC France emphasises the importance of core customer deposits as a source of funds to finance lending to customers, and discourages reliance on short-term professional funding. This is achieved by placing limits on the HSBC entities which restrict their ability to increase loans and advances to customers without corresponding

1 *See the Consolidated financial statements, Note 32 Maturity analysis of financial assets and liabilities pages 187 to 190.*

Risk management and control within the HSBC France group (continued)

growth in core customer deposits or long term debt funding. This measure is referred to as the Advances to Core Funding ratio. Advances to Core Funding ratio limits are set by the Balance sheet ALCO and validated by the HSBC Group and HSBC France's Board.

The ratio expresses loans and advances to customers as a percentage of the total of core customer deposits and term funding with a remaining term to maturity in excess of one year. In case of a breach of limit, HSBC France would correct the situation by accessing additional funding sources such as interbank or collateralised lending markets.

The table below shows the extent to which loans and advances to customers were financed by reliable and stable sources of funding.

Advances to core funding ratios[1]

HSBC France	At 31 December	
(in %)	**2014**	2013
Year-end	**101**	108
Maximum	**108**	114
Minimum	**100**	102
Average	**103**	106

HSBC France also uses measures other than the Advances to Core Funding ratio to manage liquidity risk, including projected cash flow scenario analyses.

Projected cash flow scenario analyses

HSBC France uses a number of standard projected cash flow scenarios designated to model both Group-specific and market-wide liquidity crises, in which the rate and timing of deposit withdrawals and drawdowns on committed lending facilities are varied and the ability to access interbank funding and term debt markets and generate funds from assets portfolios is restricted. The appropriateness of the assumptions under each scenario is regularly reviewed by the HSBC Group.

Stressed coverage ratios

The stressed coverage ratio are derived from these scenario analyses, and express the cash inflows as a percentage of cash outflows over a one-month and three-month time horizon in an HSBC France-specific scenario.

The stressed cash inflows include:

– inflows (net of assumed haircuts) expected to be generated from the realisation of liquid assets; and

– contractual cash inflows from maturing assets that are not already reflected as a utilisation of liquid assets.

In line with the approach adopted for the advances to core funding ratio, customer loans are generally assumed not to generate any cash inflows under stress scenarios and are therefore excluded from the numerator of the stressed coverage ratio, irrespective of the contractual maturity date.

A stressed coverage ratio of 100 per cent or higher reflects a positive cumulative cash flow under the stress scenario being monitored. Group operating entities are required to maintain a ratio of 100 per cent or greater out to three months under the combined market-wide and HSBC-specific stress scenarios.

Compliance with HSBC France's limits is monitored by ALCM teams and reported monthly to the Risk Management Meeting.

The stressed coverage ratios tabulated below express stressed cash inflows as a percentage of stressed cash outflows over a one-month and three-month time horizon. Operating entities are required to maintain a ratio of 100 per cent or greater out to three months.

Inflows included in the numerator of the stressed coverage ratio are generated from liquid assets net of assumed haircuts, and cash inflows related to assets contractually maturing within the time period.

In general, customer advances are assumed to be renewed and as a result do not generate a cash inflow

At 31 December 2014, the one-month and three-month stressed coverage ratios shown in the table below were in excess of the 100 per cent target.

Stressed one-month and three-month coverage ratios[2]

HSBC France	Stressed one-month coverage ratios at 31 December		Stressed three-month coverage ratios at 31 December	
(in %)	**2014**	2013	**2014**	2013
Year-end	**117**	110	**101**	102
Maximum	**117**	112	**106**	104
Minimum	**104**	103	**101**	100
Average	**107**	107	**102**	102

2 *This ratio measures the liquid assets available to meet net cash outflows over a 30 day/ 90 day period. The higher the percentage, the greater the liquidity.*

The year-end three-month stressed coverage ratio for HSBC France increased due to higher quantum of short term debt to manage the short term liquidity position.

Both ratio and cash flow limits reflect the local market place, the diversity of funding sources available and the concentration risk from large depositors. Compliance with entity level limits is monitored and reported regularly to the HSBC Group.

1 *This ratio measures loans and advances to customers as a percentage of the total of core customer deposits and term funding with a remaining term to maturity in excess of one year. The lower the percentage, the stronger the funding position.*

Stressed scenario analysis
HSBC France uses standard Group stress scenarios designed to model:

– combined market-wide and HSBC-specific liquidity crisis scenarios; and
– market-wide liquidity crisis scenarios.

Stressed cash outflows are determined by applying a standard set of prescribed stress assumptions to the Group's cash flow model. The group's framework prescribes the use of a market-wide scenario and a further combined market-wide and HSBC-specific stress scenarios of increasing severity.

The combined market-wide and HSBC-specific scenarios model a more severe scenario than the market-wide scenario. The key assumptions factored into the combined market-wide and HSBC-specific stress scenarios are summarised as follows:

– all non-core deposits are deemed to be withdrawn within three months (80 per cent within one month);
– the ability to access interbank funding and unsecured term debt markets ceases for the duration of the scenario;
– the ability to generate funds from illiquid asset portfolios (securitisation and secured borrowing) is restricted to 25-75 per cent% of the lower of issues in the last six months or expected issues in the next six months;
– the ability to access repo funding ceases for any asset not classified as liquid under our liquid asset policy for the duration of the scenario;
– drawdowns on committed lending facilities must be consistent with the severity of the market stress being modelled;
– outflows are triggered by a defined downgrade in long-term ratings;
– customer loans are assumed to be renewed at contractual maturity;
– interbank loans and reverse repos are assumed to run off contractually; and
– assets defined as liquid assets are assumed to be realised in cash ahead of their contractual maturity, after applying a defined stressed haircut.

Liquid assets
The table of the liquid assets shows the estimated liquidity value (before haircuts) of assets categorised as liquid used for the purposes of calculating the three month stressed coverage ratio, as defined under the Group's liquidity and funding risk management framework ('LFRF).

Unencumbered assets held as a consequence of a reverse repo transaction with a residual contractual maturity within the stressed coverage ratio time period and unsecured interbank loans maturing within three months are not included in liquid assets, but are treated as contractual cash inflows.

Liquid assets also include any unencumbered liquid assets held outside Balance Sheet Management for any other purpose. The Group's liquidity risk management framework gives ultimate control of all unencumbered assets and sources of liquidity to Balance Sheet Management.

Liquid assets of HSBC France

HSBC France	Estimated liquidity value	
(in millions of euros)	**31.12.2014**	31.12.2013
Level 1	**13,907**	14,508
Level 2	**309**	118
Level 3	**2,850**	2,722
	17,066	17,348

– Level 1 - Central governments, central banks, supranationals and multilateral development banks;
– Level 2 – Local and regional governments, public sector entities, secured covered bonds and pass-through ABSs, and gold; and
– Level 3 – Unsecured non-financial entity securities and equities listed on recognised exchanges and within liquid indices.

All assets held within the liquid asset portfolio are unencumbered.

Liquidity behaviouralisation
Liquidity behaviouralisation is applied to reflect ALCM assessment of the expected period for which the bank is confident that it will have access to its liabilities, even under a severe liquidity stress scenario, and the expected period for which the bank must assume that it will need to fund its assets. Behaviouralisation is applied when the contractual terms do not reflect the expected behaviour. Liquidity behaviouralisation is reviewed and approved by local ALCO in compliance with policies set by the Risk Management Meeting. Our approach to liquidity risk management will often mean different approaches are applied to assets and liabilities. For example, management may assume a shorter life for liabilities and a longer-term funding requirement for assets. All core deposits are assumed under the Group's core/non-core and advances to core funding frameworks to have a liquidity behaviouralised life beyond one year and to represent a homogeneous source of core funding. The behaviouralisation of assets is far more granular and seeks to differentiate the period for which the bank must assume that it will need to fund the asset.

Risk management and control within the HSBC France group (continued)

Off-balance sheet commitments

In the normal course of business, HSBC France provides customers with committed facilities, including committed backstop lines to conduit vehicles sponsored by the HSBC Group and standby facilities to corporate customers. These facilities increase the funding requirements of HSBC France when customers choose to raise drawdown levels over and above their normal utilisation rates. The liquidity risk consequences of increasing levels of drawdown are analysed in the form of projected cash flows under different stress scenarios.

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. The group issues wholesale securities (secured and unsecured) to supplement its customer deposits and change the currency mix, maturity profile or location of our liabilities.

The 'Funding sources and uses' table below, which provides a consolidated view of how the group's balance sheet is funded, should be read in the light of the LFRF, which requires the group to manage liquidity and funding risk on a stand-alone basis.

The table analyses HSBC France's consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. The assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

Funding sources and uses

(in millions of euros)	**2014**	2013
Sources		
Customer accounts	**33,635**	32,883
Deposits by banks	**7,021**	4,091
Repurchase agreements – non-trading	**15,938**	33,525
Debt securities issued	**9,237**	9,017
Subordinated liabilities	**276**	16
Financial liabilities designated at fair value	**6,911**	8,129
Liabilities under insurance contracts	**20,803**	19,354
Trading liabilities	**29,407**	37,031
Total equity	**5,804**	5,437
At 31 December	**129,032**	149,483

	2014	2013
Uses		
Loans and advances to customers	**36,240**	34,528
Loans and advances to banks	**6,022**	5,707
Repurchase agreements – non-trading	**14,796**	28,012
Trading assets	**38,720**	41,601
Financial investments	**24,685**	23,690
Cash and balances with central banks	**523**	5,994
Net deployment in other balance sheet assets and liabilities	**8,046**	9,951
At 31 December	**129,032**	149,483

Repos and stock lending

GB&M provides collateralised security financing services to its clients, providing them with cash financing or specific securities. When cash is provided to clients against collateral in the form of securities, the cash provided is recognised on the balance sheet as a reverse repo. When securities are provided to clients against cash collateral the cash received is recognised on the balance sheet as a repo or, if the securities are equity securities, as stock lending.

Each operating entity manages its collateral through a central collateral pool, in line with the LFRF. When specific securities need to be delivered and the entity does not have them currently available within the central collateral pool, the securities are borrowed on a collateralised basis. When securities are borrowed against cash collateral the cash provided is recognised on the balance sheet as a reverse repo or, if the securities are equity securities, as stock borrowing.

Operating entities may also borrow cash against collateral in the form of securities, using the securities available in the central collateral pool. Repos and stock lending can be used in this way to fund the cash requirement arising from securities owned outright by Markets to facilitate client business, and the net cash requirement arising from financing client securities activity.

Reverse repos, stock borrowing, repos and stock lending are reported net when the IFRSs offsetting criteria are met.

In some cases transactions to borrow or lend securities are collateralised using securities. These transactions are off-balance sheet.

Any security accepted as collateral for a reverse repo or stock borrowing transaction must be of very high quality and its value subject to an appropriate haircut. Securities borrowed under reverse repo or stock borrowing transactions can only be recognised as part of the liquidity asset buffer for the duration of the transactions and only if the security received is eligible under the liquid asset policy within the LFRF.

Credit controls are in place to ensure that the fair value of any collateral received remains appropriate to collateralise the cash or fair value of securities given.

Wholesale term debt maturity profile

The maturity profile of the wholesale term debt obligations is set out in the table below 'Wholesale funding principal cash flows payable by HSBC France under financial liabilities by remaining contractual maturities'.

The balances in the table will not agree directly with those in the consolidated balance sheet as the table presents gross cash flows relating to principal payments and not the balance sheet carrying value, which includes debt securities and subordinated liabilities measured at fair value.

Wholesale funding cash flows payable by HSBC France under financial liabilities by remaining contractual maturities

(in millions of euros)	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 year but not more than 5 years	Due over 5 years	Total
Debt securities issued	**1,483**	**2,577**	**2,780**	**679**	**256**	**2,394**	**3,459**	**5,119**	**18,746**
– unsecured CDs and CP	**1,444**	**2,161**	**2,676**	**395**	**157**	**–**	**–**	**–**	**6,833**
– unsecured senior MTNs	**28**	**350**	**–**	**7**	**–**	**2,187**	**1,206**	**1,090**	**4,867**
– unsecured senior structured notes	**11**	**66**	**104**	**108**	**99**	**207**	**293**	**1,607**	**2,495**
– secured covered bonds	**–**	**–**	**–**	**169**	**–**	**–**	**1,960**	**2,422**	**4,551**
– secured ABCP	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– secured ABS	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subordinated liabilities					**15**			**261**	**276**
– subordinated debt	**–**	**–**	**–**	**–**	**15**	**–**	**–**	**261**	**276**
– preferred securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2014	**1,483**	**2,577**	**2,780**	**679**	**271**	**2,394**	**3,459**	**5,380**	**19,022**
Debt securities issued	4,261	1,998	1,539	279	1,109	1,243	3,192	4,651	18,632
– unsecured CDs and CP	3,118	1,982	1,485	207	295	–	–	–	7,059
– unsecured senior MTNs	1,501	–	16	2	740	963	1,246	1,078	5,546
– unsecured senior structured notes	2	16	19	70	74	117	283	1,189	1,771
– secured covered bonds	–	–	46	–	–	163	1,663	2,384	4,256
– secured ABCP		–	–	–	–	–	–	–	–
– secured ABS		–	–	–	–	–	–	–	–
– others		–	–	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–	15	–	–	15
– subordinated debt	–	–	–	–	–	15	–	–	15
– preferred securities	–	–	–	–	–	–	–	–	–
At 31 December 2013	4,621	1,998	1,539	279	1,109	1,258	3,192	4,621	18,647

Risk management and control within the HSBC France group (continued)

Structural foreign exchange risk

The structural foreign exchange exposition of HSBC France is limited. It concerns few investments, not significant, in the foreign subsidiaries. Structural foreign exchange exposition arising from banking operations is systematically transferred to the trading room which manages exchange rate risk according to the limits set by the Risk Management Committee.

There is also an exchange rate risk on equity due to investments in foreign currency that are not hedged by financing in foreign currency. This exposure, termed as "structural", corresponds to net investments in subsidiaries, branches or associated companies for which the euro is not the functional currency.

HSBC France's investments in foreign subsidiaries are small in amount. The structural foreign exchange exposure is mainly linked to these subsidiaries' profits retained in reserves.

HSBC Holdings plc terms this risk as "structural", and monitors it through exposure and capital adequacy sensitivity indicators calculated by the Finance Department.

Risk management of Insurance operations

The risk governance framework of HSBC Assurances Vie (France) focuses on several committee, whose responsibility is to manage the exposure of the business to risks according to the limits of the risk appetite. The main committees involved in the risk governance are the following:

– the Actuarial Control Committee validates the changes in assumptions, methodology and processes that result in a material impact on profit before tax or solvency position;
– the Local Insurance Model Oversight Committee validates and controls the models used by the business;
– the Asset and Liabilities Committee manages the asset-liability risk and monitors the economic and regulatory capital levels;
– the Investment Committee manages the investment risks (market, credit and liquidity risks);
– the Financial Crime Compliance Committee covers the topics related to the fight against financial crime and money laundering;
– the Insurance Risk Meeting monitors the insurance risks, including the lapse rate (redemption, mortality and morbidity), the reinsurance strategy and the non-economic assumptions used in the models;
– the BRCM Committee is in charge of the operational, regulatory and compliance risks.

The Insurance Risk Management Committee's (RMC) responsibilities extend to all risks to which the Insurance business is exposed. The RMC uses the risk reports from the above committees and exercises governance on those committees, overseeing their structure and their running.

The RMC reports to the Audit Committee the significant issues and the actions being taken to manage them.

Capital management

HSBC France capital management approach is driven by its strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which HSBC France operates.

HSBC France policy is to maintain a strong capital base to support the development of its business and meet regulatory capital requirements. To achieve this, HSBC France manages its own capital within the context of a capital plan which is approved by the Board that determines the optimal amount and mix of capital required to support planned business growth and meet regulatory capital requirements.

Governance

The Board of Directors has the ultimate responsibility of managing HSBC France's capital base. A number of committees support the Board of Directors in this role. These are mainly the Executive Committee, the Risk Management Committee (RMC), the Assets and Liabilities Committee (ALCO) and the Capital Management Committee (CMC). The Finance Department coordinates the various aspects of capital management, such as regulatory reporting, internal capital adequacy evaluation, assessment of resilience to stress-scenarios and management of sources of capital.

Regulation and Supervision

The Basel III framework, relying in the EU on the Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR), came into force on 1 January 2014. Capital and RWAs are calculated and presented on this basis.

From the capital ratios' point of view, one of the principal innovations of Basel III relates to the implementation of a leverage ratio which corresponds to Tier 1 capital instruments divided by the leverage exposure (a combination of balance-sheet items, weighted off-balance sheet items and prudential adjustments). The leverage ratio will be publicly disclosed from January 2015 onwards, and will be part of Pillar I requirements from 2018.

Since 4 November 2014, the European Central Bank (ECB) in the context of the Single Supervisory Mechanism (SSM) has started its supervision missions. HSBC France which is considered as a significant institution in the SSM framework is supervised directly by the ECB.

Capital measurement and allocation

The Basel III framework, similarly to Basel II, is structured around three "pillars": minimum capital requirements (Pillar I), supervisory review process (Pillar II) and market discipline (Pillar III).

Regulatory capital

The Capital Requirement Directive IV (CRD IV) and the Capital Requirement Regulation (CRR) implemented Basel III in the European Union since 1 January 2014. Under this regulatory framework, capital instruments are divided into three categories, namely Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2, depending on the degree of permanency and loss absorbing capacity.

At December 31, 2014, the split of HSBC France group capital is as follows:

– CET1 capital, the highest quality form of capital, represents almost the whole HSBC France capital base. CET 1 capital is mostly comprised of shareholders' equity. Under CRD IV, various capital deductions and regulatory adjustments are made against these items which are treated differently for the purposes of capital adequacy; these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability and negative amounts resulting from the calculation of expected loss amounts under IRB. CET1 material holdings of financial sector entities, of which the insurance subsidiary, are deduced from regulatory capital for their amount above a regulatory threshold.
– Tier 1 capital, including AT1 capital, is equal to CET1 as no hybrid securities eligible for inclusion in additional Tier 1 capital have been issued by HSBC France.
– Tier 2 capital that comprises qualifying capital instruments and subordinated loans. Under CRD IV, holdings of Tier 2 capital of financial sector entities, such as insurance subsidiary, are deduced from regulatory capital, subject to regulatory criteria.

Pillar 1 Capital requirements

The Basel III regulation provides three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories to which it applies risk type weightings. The Internal Ratings-Based (IRB) Foundation approach allows banks to calculate their credit risk regulatory capital requirement on the basis of their internal assessment of the probability that a counterparty will default (Probability of Default – PD), with quantification of Exposure At Default (EAD) and an estimate of loss in the event of default (Loss Given Default – LGD), the two latter being subject to standard supervisory parameters. Lastly, the advanced IRB approach allows banks to use their own internal assessment not only for PD, but also for the quantification of EAD and LGD. Expected losses are calculated by multiplying EAD by PD and LGD. The capital requirement under the IRB approach is intended to cover unexpected losses and is derived from a formula specified in the regulatory rules, which incorporates these factors and other variables such as maturity and correlation.

To measure its credit risk, further to the approval of the ACPR, the HSBC France group has used the advanced IRB approach for sovereign risk in relation to banks and retail clients since late 2007. HSBC France received approval from the ACPR to use the advanced IRB approach for Commercial Banking clients (LGD in 2009, EAD in 2012). Only some residual exposures are still measured using the foundation or standard approach as an exception.

Market risks are measured, with ACPR approval, using Value at Risk (VaR) models or standard rules laid down by the regulator. As regards the counterparty risk, four calculation approaches are defined by Basel II to determine exposure values: the standardised method, mark-to-market, initial risk and internal model methods. The HSBC France group uses internal models based on VaR to calculate capital requirements for market risk, and the mark-to-market approach for counterparty credit risk.

The Basel III regulation also introduced capital requirements for operational risk which, again, contains three levels of sophistication. The capital required under the foundation approach is a simple percentage of income, whereas under the standardised approach banks apply three different percentages of income according to each of eight businesses defined by the regulations. Lastly, the advanced approach uses the banks' own statistical analysis and operational risk data modelling to determine capital adequacy requirements. The HSBC France group has adopted the standardised approach.

Pillar 2 Supervisory process

The second Basel pillar (supervisory review and evaluation process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar 1. Part of the Pillar 2 process is the Internal Capital Adequacy Assessment Process (ICAAP), which is the bank's self-assessment of risks not captured by Pillar 1. A report on this assessment, regularly updated, is provided to the Regulator.

Pillar 3 Market discipline

The Basel Pillar 3 is related to market discipline and aims to make banks more transparent by requiring them to publish more details on their risks, capital and risk management. The HSBC Group in France does not publish its own set of Pillar 3 disclosures but these are included in the disclosures that HSBC Holdings plc makes available on the investor relations section of its website.

Stress testing

Stress testing exercises aim to assess the impact on capital of adverse scenarios, and so come up with measures to mitigate these effects. The results of stress testing are taken into account when assessing the internal capital requirements.

In addition to internal stress tests, HSBC France is subject to supervisory stress testing. The stress testing programme carried out by HSBC France in 2014 met both the Prudential Regulation Authority (PRA) request (the PRA is HSBC Group's supervisory authority) and the European Central Bank (ECB) requirements.

Risk management and control within the HSBC France group (continued)

Regulatory capital position

The table below sets out the analysis of regulatory capital:

Composition of regulatory capital

(in millions of euros)	**31.12.2014 Basel III**	31.12.2013 Basel II
Common Equity Tier 1 (CET1):		
Shareholders' funds of the parent company	**5,732**	5,391
Non-controlling interests	**57**	46
Less: dividends paid to the parent company	**(150)**	–
Less: items with a regulatory treatment	**(119)**	(57)
Less: prudent valuation adjustment (PVA)	**(48)**	–
Less: goodwill and intangible assets	**(374)**	(362)
Less: deductions in respect of expected losses	**(105)**	(57)
Less: investments in financial sector entities exceeding the 10% threshold of regulatory own funds		
– of which shareholder's equity of HSBC Assurance Vie (France) (- 233)	**(269)**	(275)
Less: investments in financial sector entities and deferred tax assets exceeding the 17.65% threshold of regulatory own funds	**(31)**	–
Less: subordinated debts in financial sector entities	**–**	–
– of which subordinated debt of HSBC Assurance Vie (France)	**–**	(259)
Total CET1 capital	**4,693**	4,427
Tier 2:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale securities	**–**	46
Subordinated debts and securities	**279**	22
Less: deductions in respect of expected losses	**–**	(57)
Less: subordinated securities of HSBC Assurances Vie (France) consolidated by the equity method	**(270)**	(11)
Less: investments in financial sector entities exceeding the 10% threshold of regulatory own funds	**(9)**	–
Total qualifying Tier 2 capital	**–**	–
Investments in other banks and other financial institutions	**–**	–
Total capital	**4,693**	4,427
Total Basel III risk-weighted assets *(unaudited)*	**33,316**	32,343
Total risk-weighted assets before the additional requirement due to the floor *(unaudited)*	**33,316**	29,487
Capital ratios:		
CET1 ratio	**14,1%**	13.7%
Tier 1 ratio	**14.1%**	13.7%
Total capital ratio	**14.1%**	13.7%

The above figures were computed in accordance with the European directive CRD IV, the European regulation CRR, and the prudential standards from the European supervisor and the competent authorities. The HSBC France group complied with its regulatory capital requirements throughout 2014 and 2013.

Basel III solvency ratio

The HSBC France group's solvency ratio was 14.1% as at 31 December 2014, compared with a minimum Pillar 1 regulatory requirement of 8%. The group's CET1 capital ratio was 14.1% compared with a minimum Pillar 1 regulatory requirement of 4%.

Under the Basel III definitions, total HSBC France group own funds amounted to EUR 4.7 billion as at 31 December 2014, only composed of CET1 capital instruments).

OPERATIONAL RISKS

Operational risk is the risk of losses arising from shortcomings or failings attributable to internal processes, employees, IT systems or external events including those that are unlikely to occur but which present a significant risk of loss, including the risks of internal and external fraud.

Identification and management of operational risks

Governance

The general organisation of the permanent control is the responsibility of the Deputy CEO, who is supported by the Operational Risk team. The Operational Risk team works closely with the independent control teams BRCM (Business Risk and Control Management) of Global Businesses, Global Functions and HTS and with the other Global Functions belonging to the second line of defence.

This department, which reports to the Deputy CEO in charge of risks and permanent control, centralises work relating to the operational risk management and supervision of permanent control framework.

Within this framework, a specific meeting called Operational Risk Working Group reviews on a regular basis the operational risks of businesses, functions and HTS, the results of controls carried out, and progress made in action plans implemented to mitigate identified risks and operational losses.

Operational risk or BRCM (Business Risk and Control Management) meetings within the businesses and risk functions are responsible for overseeing management of the operational risks and permanent controls of each entity.

The HSBC France group has procedures covering the process for the identification, reporting, management, control and prevention of operational risks, specifying in particular that:

– operational risk management is first and foremost the responsibility of managers through how they run their operations;
– IT systems are used to identify and report operational risks and generate regular and appropriate reports;
– identification and assessment of risks and controls across the entire scope are updated at least once a year in order to identify any significant changes;
– operational losses are collated and reported.

The HSBC Group uses the standardised approach for calculating the regulatory capital needed to cover operational risks. To estimate economic capital, the HSBC Group uses the same concept, but as applied to certain specific businesses in the HSBC Group's structure instead of the eight businesses of the regulatory approach. The HSBC Group has, however, started work centrally on developing an economic capital model. The HSBC Group is planning in the medium term to make an eventual transition to the advanced method (AMA) for calculating the regulatory capital required to cover operational risks.

Identification and risk measurement through risk and controls mapping

HSBC France and its businesses are exposed to all the types of operational risks that banks face, particularly:

– operational risks link to Record Management process related to customer's document and data and ability to retrieve them with integrity and completeness in short delays;
– risks link to data quality, accuracy and completeness in particular for data in scope of new regulatory requirements and reportings;
– operational risks and Execution risk related to change management, and process, systems and organisations modifications;
– risks link to outsourced services management (external vendors and HSBC Intra-group);
– IT risks notably link to security, resilience and ever greening of systems and architecture and to license management;
– information security risks;
– risk related to cybercrime (phising, malware, cyber attacks...);
– external fraud risks, in particular: card fraud, Internet fraud, fasle transfers, social engineering;
– risk of mistakes in processing transactions;
– risk related to customer relations.

Operational risks include reputational risk. Any lapse by HSBC France in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk which may impact its relationship with its clients, counterparts, shareholders, regulators and any other stakeholders. Safeguarding and building upon the Group's reputation is the responsibility of every employee of HSBC France.

Business Risk and Control Management teams of businesses, functions and HTS, coordinate work, within their entities, to identify operational risks liable to affect their business. In conjunction with the business head concerned, they analyse and quantify those risks. This risk map covers the whole operational risks exposure of the business including the first level of key controls and internal monitoring plans required to monitor these risks. Action plans are drawn up for all risks identified as significant according to their grading, and progress made is monitored by BCRM teams of businesses, functions and HTS.

Each risk management function also lists the risks for which it is responsible and to which it is exposed in its day-to-day operations.

To prepare risk maps, internal control and operational risk management teams in the businesses and functions comply in particular with the provisions of the Operations FIM Group and HTS.

Risk management and control within the HSBC France group (continued)

Operational risk and incident analyses and reports

Operational Risk team prepares monthly reports for the HSBC France and HSBC Group Senior Management, and presents summary reports to the relevant bodies (Operational Risk Working Group, Risk Management Committee, and the Audit and Risk Committee).

These reports in particular cover:

- an executive summary explaining movements on losses over the past period and the principles of the operational risks management framework;
- a "heat map" covering indicators of exposure to each type of operational risk (*i.e.* excluding credit and market risk) accompanied by a description of the main problems and associated action plans for the main types of risk (Top Current Risks);
- the main incidents in the past period and the associated action plans.

Reporting statements are prepared on the basis of declarations made in the HSBC Group's incidents and operational risks management system, ORION, which should ultimately constitute an Enterprise Risk Management (ERM) tool. This application allows for decentralised management of the risk identification and updating process, declarations of operating losses and the monitoring of action plans decided with a view to mitigating the criticality of risks deemed to be major.

The operational risk management and control framework is organised around risk functions, whose responsibility is to provide a second line of defence in the main categories of risk to which the bank is exposed. The nature and monitoring of the main risks are discussed above and below.

Non-compliance risk

Management of the risk of non-compliance is described in the Chairman's report on pages 49 to 51.

Legal risks and litigation management

The HSBC France Legal Department (DAJ) is responsible for HSBC France group's legal risks oversight as a second line of defence, and helps the various HSBC France group businesses to prevent and control legal risk. The DAJ is in charge of litigation follow-up.

Prevention of legal risks

The DAJ is responsible for running the Legal and Tax Risks Committee which meets quarterly to examine situations likely to give rise to specific and significant legal or tax risks. It also runs the Complex and Structured Transactions Committee, which examines the legal, accounting, tax and financial, and reputational risks arising from complex structured transactions. The DAJ participates in the Products Examination Committees, in the Committees related to Operational Risk and Internal Control, in the RMC (Risk Management Committee) of the HSBC France group, and is involved in due diligence procedures for market operations, structured transactions and any new acquisition (or disposal) of an entity by the HSBC France group.

The DAJ is principally responsible for managing risks, directly or indirectly, connected with defense litigation matters. It is involved in dealing with credit files requiring special management or in default. The DAJ monitors other risks that might have a legal impact.

Control framework of legal risk

The Legal and Tax Risks Committee, chaired by the Chief Risk Officer (who is also Deputy to the CEO), meets quarterly to ensure that the risks framework for legal and tax risks remains adequate in the face of changes in laws, regulations and group organisation. The Committee also examines the monitoring of incidents raised previously, the results of implemented controls, along with any new incidents and measures taken. It reports on its activities to the HSBC France Operational Risk Working Group.

Each HSBC France subsidiary that is subject to the French order of 3 November 2014 draws up a half-yearly legal permanent control report, signed by a lawyer and the Head of permanent control for the subsidiary on behalf of itself and the companies it controls. These reports highlight any significant matters revealed by controls, or any control deficiencies and proposed action plans to resolve any incidents observed while effecting any controls.

At the HSBC France level, the lawyers responsible for legal risk in the various businesses prepare legal control certifications which, taken as a whole, cover all major legal risks identified for all HSBC France entities.

On the basis of these reports, HSBC France's Head of Legal prepares a half-yearly general certification on the Legal function's permanent control.

This framework is wholly effective and a detailed description of it is given in a regularly updated circular.

Litigation monitoring with regard to HSBC France group entities[1]

The situation of the risks arising from significant litigation in progress against the HSBC France group is examined quarterly by a committee chaired by the Chief Risk Officer and is made up of representatives of the Finance Department, the Credit Department and the DAJ. This committee gives a considered opinion on the basis of which Senior Management decides upon the amount of the litigation provision to be charged or written back.

Cases in progress as at 31 December 2014 involving legal risks likely to have a significant effect on the financial situation of the HSBC France group net assets are set out below. These cases have given rise to appropriate provisions, as necessary.

1 *See the Consolidated financial statements, Note 40 Legal proceeding and regulatory matters pages 222 and 223 relating to HSBC Group entities globally.*

Interbank fees relating to electronic cheque processing

In 2002, a number of banks with retail networks, including HSBC France, forming part of an inter-branch committee sponsored by the French Banking Federation, introduced a system of interbank fees applying to the new electronic cheque processing termed *Echange d'Images Chèques* (EIC), the cheque image exchange system.

In March 2008, the French Competition Authority sent notification of a complaint to the twelve members of the committee – including HSBC France – for the introduction of interbank fees when the EIC was set up.

On 20 September 2010, the French Competition Authority took an unfavourable decision as regards the scheme introduced in 2002. In substance, it found that the CEIC constituted an illegal scheme, the purpose of which included effects on the cost of processing cheques causing an increase in costs charged on "major remitter" customers. The banks involved in setting up this charging system were fined a total of EUR 384.9 million. HSBC France was ordered to pay a fine of EUR 9.05 million. HSBC France, together with the other banks that were fined, except the *Banque de France*, decided to appeal this unfavourable decision.

The banks actually contest as much the anticompetitive purpose as the anticompetitive effect of the CEIC and argue that it has no significant effect on the costs of banking services. The banks, including HSBC France, further question the method used in calculating the fines imposed upon them.

On 23 February 2012, the Paris Court of Appeal overturned the decision of the French Competition Authority, finding that the Authority had failed to demonstrate a restriction by object. The Paris Court of Appeal cleared the banks of wrongdoing and ordered the repayment of fines paid by the banks. The French Competition Authority is appealing to the Supreme Court against the decision.

The hearing before the Supreme Court will take place on 17 March 2015.

Enquiry by the French Competition Authority on the interbank fees relating to all means of payment other than cheques

On 16 April 2009 and 22 September 2010, HSBC France along with some ten other banks and the GIE Cartes Bancaires CB received questionnaires from the French Competition Authority regarding the interbank fees applied to means of payments used in France. This followed a complaint made by the *Fédération des entreprises du commerce et de la distribution* (FCD). The French Competition Authority decided to conduct research into the practices of the largest French banks and bank card networks operating in France (Visa Europe, Mastercard Europe SPRL, Mastercard France, Mastercard International Inc., the GIE Cartes Bancaires CB and the GIE Carte Bleue Visa) on interbank fees paid and received for all means of payment used in France (direct debits, transfers, debit and credit cards) between 2000 and 2008.

As concerns the debit and credit cards, on 7 July 2011, the Competition Authority announced its decision to make the commitments proposed by the GIE Cartes Bancaires CB under this procedure mandatory.

As regards interbank fees applied to payment methods other than cheques and cards, the French Competition Authority in July 2013, stated that the banks had fulfilled their commitments and decided, that a further cost assessment study should be carried out regarding the exceptional SEPA means of payment. This study and the banks' adjustments offers shall be submitted to the Competition Authority in the first half of 2015, which should finally resolve this matter.

The Apollonia case

As was the case for around twenty other banks, HSBC France worked during a limited period of time (from early 2006 to April 2007), and mainly in one branch, with a financial adviser and estate agent, known as Apollonia. The latter offered its clients (mainly independent professionals) "turnkey" tax efficient products of the "*Loueur Meublé Professionnel* (LMP)" (professional lessor of furnished accommodations) type and for a small number of investors "*Loi Robien*" type tax efficient products.

Between April 2006 and April 2007, 184 property loan applications were approved, for a total of EUR 29 million, bearing in mind that different media have said the total amount of operations by Apollonia with all banks purportedly reached around EUR 2 billion.

At the end of September 2008, HSBC France became aware of the use of inappropriate marketing methods by Apollonia. Moreover, it appeared that most of the borrowers took out several loans through Apollonia from various banks without notifying HSBC France.

Five notaries have been indicted for conspiracy to commit organised fraud, forgery and use of forgeries. HSBC France is involved as a civil law party, giving it access to the criminal file. From this, it has become apparent that a very large proportion of the official agency authorisations, signed by the buyers giving authority to sign purchase and sales deeds, were not properly prepared.

HSBC France systematically files proceedings against those investors with loan repayments due but the hearings are held in abeyance because of the criminal proceedings underway. However, in order to settle the financial aspects of the matter, without waiting for the outcome of criminal proceedings, out-of-court settlements have already been reached with some borrowers and talks are continuing with other borrowers. Proceedings have also been commenced against the notaries involved and their insurer MMA. These proceedings have also been adjourned for the time being.

Adequate provisions have been recorded for the Apollonia case in the light of information available to Senior Management.

Euribor enquiry

See Note 40 of the consolidated financial statements with regard to other significant legal proceedings and regulatory matters relating to HSBC entities, including HSBC France.

Risk management and control within the HSBC France group (continued)

Other regulatory, civil law or arbitration proceedings
To date, as far as HSBC France is aware, it is not threatened by any other regulatory, civil law or arbitration proceedings that are in progress or in suspense against it that might have, or over the last 12 months have had, any significant effect on the financial situation or the profitability of the company and/or of the group. As reported in the French press, in April 2013 French judicial authorities opened an investigation against unnamed persons on the grounds of alleged illicit solicitation for banking and financial services, organised money laundering of funds obtained through illicit banking or financial solicitation, and organised money laundering for the purpose of tax evasion in the matter involving client data stolen from HSBC in Switzerland and relating to French residents. In November 2014, a member of the HSBC Group, not controlled by HSBC France, HSBC Private Bank S.A., was formally placed under criminal investigation by magistrates in France.

Tax risk

The HSBC France Tax Department (DAF), which oversees as a second line of defence the HSBC France Group tax risk reports directly to the Deputy CEO in charge of Risk.

This Department assists HSBC France Group various businesses, along with its subsidiaries, in the prevention and the monitoring of tax risks.

The Department has analysed the major tax risks and has mapped them. Some tax positions are discussed with tax authorities.

Prevention of tax risks

DAF attends the Legal and Tax Risks Committee, which is run by the DAJ, and also the HSBC France Group Complex and Structured Transactions Committee, the Product Examination Committee, and the Committees related to Internal Control and Operational Risk and WMOC (Wealth Management Oversight Committee).

Tax risk monitoring system

All HSBC France subsidiaries, directly subject to regulation 97-02 updated in November 2014, establish yearly tax certificates for themselves and for the companies that they hold.

On the basis of these certifications and the knowledge of the activities performed, HSBC France's Head of Tax confirms HSBC France group's tax compliance to HSBC Group twice a year.

The whole framework is operational and the relevant policy has been formalized in a dedicated circular.

Accounting risk

The accounting risk control framework is described in the Chairman's report on pages 51 to 52.

IT Systems Risk

IT risk management

IT risk has consequences mainly on four levels:

- operational: even if the activity is not directly based on an IT process, closure of the IT service generally results in a shutoff or slowdown in the bank's production;
- financial: IT expenditure (hardware, software, know-how) constitutes a significant proportion of the bank's assets;
- legal: regulations require oversight of the security of the IT system (*Loi Informatique et Libertés*, LCEN, SOX Act, LSF, etc.);
- projects: wrong design or mismanagement of projects could lead to serious consequences and have significant impacts on operations in the future.

IT risks are assessed using the HSBC Group's methodology. Control of these risks is based on a governance and organisational structure meeting Group standards and best practice guidelines (CMM, ITIL, COBIT) used in the financial services and banking industry.

Missions and coverage

HSBC France's IT function forms part of HSBC Technology and Services (HTS) and relies on four departments to support the IT services delivered to the HSBC France businesses and support functions:

- IT Operations (ITO) Department, in charge of the implementation and maintenance of systems and infrastructures on which are hosted the banking functionalities rolled out within the businesses and functions of HSBC France;
- Software Delivery (SwD) Department, in charge of the development and maintenance of intra group or third parties software solutions;
- Change Delivery (CD) Department, in charge of managing major change programmes within HSBC France, under the authority of the Chief Operation Officer (COO) in France;
- Risk and Administration (RA) Department, in charge of monitoring and managing operational risks of HTS activities in France;

The missions of the IT function are covered by the following HSBC Group manuals:

- Group Standard Manual (GSM): 10.6 Information Technology;
- HTS Functional Instruction Manual (HTS FIM).

The IT function aims to implement an IT risk reduction strategy that is consistent with the information system strategy. This one also aims to meet the information system's confidentiality, integrity and availability requirements with respect to the bank's businesses. This IT function monitors risks following this typology of risks:

- loss of information system integrity;
- loss of sensitive data confidentiality;

– loss of key personnel;
– failure to comply with legal duties as regards projects monitoring, IT assets management or infrastructure implementation;
– human or code errors;
– loss of expertise relating to projects and/or technologies of HSBC in France key services;
– unavailability or damage of information system and critical services performance and capacity;
– infrastructure and/or software vulnerabilities relating to external and internal threats;
– loss or lack of controls relating to sensitive functions or processes for outsourced services located in other HSBC entities in the world or provided by external suppliers;
– loss of or damage to audit trails relating to IT critical resources stored in the log book;
– failure of key suppliers in the regulatory sense leading to loss of critical services recovery or quality services damage;
– internal or external fraud.

The IT risks control framework

The identification of all IT risks and control is performed in accordance with the RCA Group (Risk and Control Assessment) methodology. To reflect the organisational structure, IT Departments risks are identified around four mapped departments, namely RA, CD, ITO and SwD.

Each IT risk cartography is revised at least annually and updated so as to reflect the main risk profile changes such as:

– global risk level assessed by the IT function;
– internal or external incidents and/or significant regulatory changes;
– significant changes or new processes or systems relating to the IT function;
– identification of a significant control issue through processes such as follow up and controls monitoring, SOX or issues raised by the regulator, the internal or external auditors.

For each significant IT risk identified, the IT functions identify and document key controls so as to mitigate the risk. In addition, a description of the current monitoring for each key control is identified.

The IT permanent control information (results of control reviews, progress with the control plan, change in risk reviews and control assessments, any failures and remedial actions taken) are communicated monthly to HTS' governance body (Comex). Permanent control work and results are also reported monthly in the Risk Management Committee (RMC) and quarterly in Operational Risk Working Group.

In addition, to comply with the US Sarbanes-Oxley Act, the HSBC Group has set up a permanent control documentation and assessment framework, co-ordinated by the Finance Department, relating to the IT processes involved in preparing financial statements.

Risk monitoring

The HTS IT functions prepare a control plan on an annual basis. This plan sets out the key control monitoring activities that are performed annually. Their monitoring is performed by the HTS IT functions through a detailed controls assessment, key indicators monitoring or thematic reviews.

The results of risk assessments and controls form the basis of the annual control plan. It is approved annually.

Any major IT problem identified through control monitoring is reported to HTS' permanent control management and HSBC France's permanent control supervision department (Operational Risk team).

Information security policy

The information security policy includes information both in electronic and paper format, and must cover technological, organisational and human risks.

Risks relating to information security are a central concern of the HSBC Group and HSBC in France. To reduce risks in this area, numerous directives have been adopted over the last few years and all HSBC in France employees are reminded of them on a regular basis.

The security measures applicable within the HSBC Group are laid out in a set of standards, made up of various documents such as the Functional Instruction Manuals and the Security Secondary Standards. These standards apply to all HSBC France employees and are based on industry best practice, unless they are more restrictive. Each entity, business or department is responsible for applying the standards and incorporating them into the everyday work of its employees.

Monitoring and governance of IT systems security risk are the responsibility of the Information Security Risk team (ISR). This team is part of the Security and Fraud Risk Department (SFR), under the responsibility of the Chief Risk Officer.

ISR's objectives are particularly:

– to monitor the data security risks borne by the bank;
– to reduce security risks to an acceptable and/or accepted level by the Senior Management (notion of risk appetite);
– to safeguard the HSBC brand and its reputation;
– to minimise losses arising from the security incidents;
– to ensure that security measures are consistent throughout all entities.

To achieve these objectives, it is necessary to:

– lay down the data security requirements in local policies and procedures;
– to ensure that everyone knows the data security requirements and that the businesses incorporate the data security requirements in their day-to-day work;
– to monitor the activities of Business Information Risk Officers (BIROs), who are the business representatives of ISR and are tasked with implementing security policies within businesses;

Risk management and control within the HSBC France group (continued)

- deploy a second line of defence for ensuring that the bank is compliant with the HSBC Group's safety standards;
- to provide "expert" assistance on ISR matters to all entities.

The various ISR activities are intended to ensure the integrity and confidentiality of information belonging to HSBC and its clients:

- checks of management of user access to the bank's applications and operating systems, and the password management policy;
- applications security, to ensure that applications used within the company have been developed in accordance with the rules and comply with the bank's security policies;
- business-line controls, to ensure that businesses comply with HSBC Group policy regarding the treatment of sensitive data, supported by BIROs (Business Information Risk Officers);
- infrastructure security, involving penetration tests and work to ensure the security level of the bank's technical infrastructure;
- risks relating to service providers, involving checks that the services the bank entrusts to certain providers are performed with the required level of safety;
- incidents and threats, involving work to manage threats within HSBC France and any security incidents, including the preparation and monitoring of remedial action plans;
- communication and training, involving the preparation of annual communication and training plans and their implementation.

Fraud prevention

Within the Security and Fraud Risk (SFR), the anti-fraud unit's main task is to ensure that the measures for protecting the group against internal and external fraud are comprehensive, efficient and appropriate.

This involves:

- preventative action, incorporating special anti-fraud controls into procedures identified as sensitive to the risk of fraud;
- detection work, using software or reports for detecting fraud;
- investigation or enquiry work where internal or external fraud is identified.

In terms of governance, fraud prevention requires coordination between all parties involved: businesses, internal control and operational risk management teams, Compliance, Credit and Human Resources. For this purpose, a SFR representative sits in on business BRCM Committee meetings.

As regards frauds designated as major, there is a fraud response group that meets in exceptional circumstances, such as in the event of internal fraud or targeted attacks on HSBC France client Internet platforms.

Amongst the activities carried out regularly within the unit are:

- involvement at an early stage in installing systems and designing processes to cut down vulnerability to fraud;
- making employees and clients more aware of fraud;
- analysing trends in fraud and the ways in which it is carried out, as well as gathering information;
- investigations on the basis of reports received, alerts generated by systems or other detection methods;
- funds recovery actions;
- support in instigating legal proceedings;
- monitoring corrective actions taken on detecting a fraud.

Amongst the priority areas covered within this unit are systems, procedures and controls relating to:

- recruitment of permanent or temporary employees, including service providers;
- client identification and authentication, whatever the service channel: Internet, branches, call centres, mobiles;
- the collection and update of sensitive customer information in databases;
- instructions in connection with means of payment;
- opening accounts by means of any of the service channels, in cooperation with Compliance and Credit Risk Departments;
- the existence of the segregation of duties principle and of traceability of transactions to deter internal frauds by whatever process.

Following on from the measures taken in 2012, priority in 2014 was on the prevention and detection of Internet frauds notably with the launch of 2FA (2 Factors Authentication) method based on a one time log on password for Retail Banking and Wealth Management customers allowing them to use a soft or hard token for their transactions.

The Fraud Department is also tracking suspicious clients logons with a dedicated software allowing high-level surveillance of the behaviour of client connections.

HSBC France propose to its clients the opportunity to upload the "Trusteer" tool dedicated to remote banking security notably to prevent digital identity theft and to detect malwares.

Mortgage frauds were a key area of concern in 2013 for HSBC France as well as all the other banks in France. In the context of a deteriorated economic environment, customers have overvalued their income in order to get mortgage loans. Therefore HSBC France has fully reassessed its internal control framework so as to prevent this type of fraud.

Rogue trading and counterparty fraud are covered by the Global Banking and Markets control units and therefore do not fall directly within the anti-fraud unit remit. Instead, it becomes involved at the stage of investigation when an internal fraud has been detected or is suspected in connection with counterparty risk.

Figures as at end

The total for internal and external frauds represents around 80 per cent of the total of typical operational losses, *i.e.* EUR 6.5 million. This amount is decreasing compared to 2013 due to fraud on internet and payments clearly identified. The number of files remains roughly consistent, around 1,394 annual investigations among which 262 are frauds and 502 attempts, but the unit amounts are increasing.

Frauds carried out by customers

Frauds carried out by customers are defined as the customer's deliberate intention to deceive the bank by any means, such as false discounted bills, drawings made after the depositing of dishonoured cheques or bills, and loans obtained on the basis of false documents.

In 2014, these frauds represented around EUR 1.0 million (16 per cent of the total of frauds).

These type of frauds are decreasing due to implementation of automated verification of the customers declared revenues via the Government website "impot.gouv.fr" for any credit requests.

External frauds

These are frauds committed by third parties against customers' accounts or against the bank: plastic card fraud, opening an account with identity dissimulation, identity theft, presenting falsified or fake cheques, fake payment transfers.

At the end of 2014, these frauds represented around EUR 5.3 million (82 per cent of the total of frauds).

The card frauds are largely increasing in 2014 compared to 2013 at the same period.

The numbers of fake transfers have decreased. The call back procedure remains the main preventive tool as regards frauds relating to false payments.

Losses caused by an Internet virus increased in terms of both the number of cases and the amount. Furthermore, as the Internet and online banking present a high risk of fraud, the anti-fraud unit is closely involved in the implementation of new customer authentification systems and management of Internet fraud.

Internal frauds

These are frauds committed by employees with or without outside complicity, including frauds committed by HSBC service providers and HSBC temporary staff.

The number and volume of fraud is in line from one year to another and represents d around 1 to 2 per cent of total amount of frauds.

Business continuity

The Recovery Plan

The purpose of the Business Recovery Plan (BRP) is to ensure that business can carry on or continue to run at the minimum level considered necessary to safeguard the interests of the business, its employees and its customers, in the event of a major disaster or disruption likely to have a significant impact on the business of HSBC France and/or of its subsidiaries, or to produce a significant deterioration in the image of the business.

The HSBC Group's Global Risk FIM (Functional Instruction Manual) specifies that: "Each department or business unit should devise a business recovery plan that takes account of the risks for their business activities, analysis of the impact, requirements in terms of resources etc., resulting in the creation of a business continuity management plan that needs to be updated, tested and approved by management at least once a year (and more frequently if major changes occur). This plan must describe how ordinary activity can resume after an adverse event or an interruption to business activity".

A list of four types of business interruption is proposed in the FIM:

– loss of premises (*e.g.* fire, flooding, blocked access, etc.);
– loss of personnel (*e.g.* contagious disease, etc.);
– loss of systems (*e.g.* IT virus, shutdown of central systems, etc.);
– loss of supplier and critical internal dependence.

These various kinds of interruption have been used in analysing the impact prior to the implementation of HSBC France's Business Recovery Plans.

These four types of business interruption can be used to cover the following FBF scenarios:

– centennial floods;
– accidents, nuclear, radio, biological, and chemical attacks;
– health risks;
– multiple bomb attacks;
– widespread electricity breakdown;
– general transport strike;
– service provider failure;
– cyber attack consequences.

French order of 3 November 2014 requires that each main establishment should lay down a business recovery plan which should be updated and should be tested regularly.

The HSBC Group standards (GSM section 10.5 and Global Risk FIM) provide that each department or entity must have at the minimum a business recovery plan which is kept updated and which is tested at least annually (more frequently in the event of major changes). The plan must describe how activity is to be resumed at a pre-agreed level after a major incident.

Risk management and control within the HSBC France group (continued)

Because of the size of HSBC in France and the large number of its geographical locations and businesses to be covered, each business, department, subsidiary and central function has prepared a Business Recovery Plan appropriate to its business according to its assessment of the risk of the unavailability of a property and also of the absence of all or some of its employees, an IT system or an internal or external service provider.

Within each unit and depending on their size, the governance has been defined as below:

– A Champion (RPCA, or Sponsor) who may be a team manager, a head of department, or any other manager appointed by name. He is usually member of the steering committee of the entity. He is accountable for allocating the necessary resources in charge of the framework, monitor and approve the deliverables requested, promote the business continuity within his scope.
– A BRP correspondent (coordinator) – who may be dedicated or not- is appointed by name. The correspondent reports to a named manager (RPCA, Champion or Sponsor) and is in charge of the general coordination of the framework within the entity. He organises and supervises the implementation of technical resources and annual tests. He also manages the preparation of or prepares reports on tests and initiates appropriate procedure to make corrections or changes if necessary. He is in charge of communications and methodological support within the entity, keeping the plans and various deliverables, saving them on the space made available by the central team and declaring any measures taken within his entity.
– A BRP Editor for each business has been appointed by name since the end of 2012, reporting on a hierarchical basis to the head of the activity concerned and on functional basis to the business entity's coordinator. He is in charge of conducting impact analysis (use of Group tools) writing up and revising BRPs.

A central structure for organising and managing these plans (SFR BCM team), located within the Security and Fraud Risk Department, ensures that the exercise is comprehensive, that the plans are copied centrally so as to be accessible by the various departments involved in implementing them, and that the system is consistent throughout.

This central structure is responsible for organising business recovery co-ordination committee meetings and for communicating about organisational, technical and testing strategies.

All important documents, the detailed Business Recovery Plans for departments and subsidiaries, and the necessary technical documents are held as a copy in a central "documents database", which can be accessed by authorised employees from all the company's locations. There must nevertheless be a copy of these documents on the secured dedicated space of these entities.

The Major Incident Group

Activation of the implementation of BRPs is based on a multi-tiered management system:

– the business crisis committee if the trigger incident is restricted to just the entity or of limited seriousness;
– a committee at the level of HSBC France's Senior Management called MIG (Major Incident Group).

The MIG can be activated in two ways, depending on the seriousness of the incident and the risk to be covered:

– the level 2 MIG consists of a fifteen or so deputies to business heads or heads of operational functions covering the cross-functional activities needed to manage a major incident or crisis (Communication – Human Resources – Real Estate – IT – Markets – Operations – Security – Logistics). This committee is chaired by the Chief Operating Officer, seconded by four dedicated working parties (Communication – Human Resources – Real Estate and IT – Business Continuity). This committee, activated by a cascade warning process initiated by a security post (technical control post (TCP): active 24/7), triggers all or part of the BRP if necessary after analysis;
– the level 3 MIG is made up of business or function heads and chaired by the CEO of HSBC France and benefits from the same supports.

The detailed structure of MIG and its workgroups, the principles and structure established, the description of the contacts and the escalation process, the contact details of those involved, and the "reflex" files to be implemented in case of activation are contained in a reference document called MIM (Major Incident Manual), which is continuously updated by the HSBC France group SFR/BCM manager. This manual together with a reference list (major incident members list) are provided regularly to the members of the crisis system.

Emergency measures are planned to manage incidents as soon as they occur in order to ensure the protection of people, communications, safeguarding and rebuilding of assets.

The resources and fallback site

The HSBC France Management has approved an internal-fallback site solution and authorised the resources for implementing it.

The main special fallback site, located in a Parisian suburb, is fitted with shared, general-use workstations, as well as trading stations.

This secure site is open and accessible to personnel on the decision of MIG at the request of businesses during scheduled tests, validated by the RPCA in the event of a transport strike or during programmed tests. It resembles a normal group operations site and is made up of a number of open plan office areas together with the necessary technical resources (computer terminals, telephones, printers, faxes and special equipment – scanners, specialist readers) to continue carrying out the business activities decided upon in the appendices of the Business Recovery Plans.

In the event of a crisis, priority will be given to Markets, Asset Management, bank transactions processing, non-production IT facilities and other businesses or functions regarding their Business Impact Analysis (BIA) criticality.

All essential activities are covered by Business Recovery Plans.

Human Resources

Risks relating to human resources management and control system

At the end of 2014, the main HR risks with potentially significant impacts on the operation of HSBC France were as follows:

– psycho-social risks created by a poor working environment, inadequate working conditions or inadequate managerial practices;
– data security risks relating to the loss or unauthorised distribution of sensitive data relating to staff;
– legal risks relating to non-compliance with regulations;
– risks of non-payment of employment taxes.

HSBC France's Human Resources Department is involved in the second line of defence of the Human Resources (HR) risk of the HSBC France group.

For this purpose, it has mapped the transverse risks relating to HR as well as the HR function risks. This document is updated at least once a year and is used in support of the annual control plan.

The internal control also relies on risk indicators (Operational Risk and People Risk), which are commented monthly at the Risk Management Committee.

The People Risk Committee was set up in 2009. It meets quarterly to review the continuing appropriateness of the permanent control system of the Human Resources risk function. The members of this Committee are the main Heads of HSBC in France's Human Resources Department, the HR Operational Risk Function correspondent and the representative of Legal in charge of Employment law.

The Committee reviews progress on points previously put forward for improvement and unresolved audit points and the results of controls and new action plans arising from them. It approves the due diligences and results of post-implementation reviews of new processes or products. It ensures that service providers are listed and that the risks relating to the services provided have been assessed. It reports on its work to the ORWG.

The committees

Role of the HSBC France People Committee

The purpose of the People Committee is to enable the main HSBC France Senior Managers (CEO, Deputy CEO in charge of risks, COO and the Head of Human Resources), on a monthly basis, to tackle all human resources issues of strategic importance, in accordance with the HSBC Group HR policy and developments in it.

On the subject of compensation, the People Committee carries out various roles both on the overall and individual aspects.

Compensation policy

It examines the main thrust of the compensation policy put forward by the Human Resources Department for France and approves it.

It ensures that this policy fits in with the general principles of the compensation policy set out by the HSBC Group for all of its subsidiaries, in accordance with the specific directives set by the businesses.

It gives its opinion on whether this policy complies with local industry standards and the recommendations of the French bank supervisory authorities (*Autorité de contrôle prudentiel et de résolution*, *Autorité des marchés financiers*, *Fédération bancaire française*).

Variable compensation arrangements

It checks that all variable compensation arrangements in place in the bank's various businesses are in line with the general principles set out in the compensation policy for France, the HSBC Group and the global businesses and comply with the requirements of the supervisory authorities.

It reviews the variable compensation packages awarded either locally or by global businesses to French staff on the basis of the performance of each business, while taking risk and compliance into account.

It approves the structure of these packages, *i.e.* the split between fixed and variable salary, between immediate compensation and deferred compensation in application of the HSBC Group rules, particularly in connection with deferred compensation and local industry standards on the subject.

Individual awards

It reviews and approves the consistency of remuneration of population covered by the order of 13 December 2010 (except for the members of the People Committee) before submitting them to the appropriate HSBC Group decision-making bodies.

It reviews the businesses' 20 highest earners (except the members of the People Committee) in conjunction with the HSBC Group's decision-making bodies and the global businesses.

It ensures that proposed individual compensation packages take account of any individual failures to meet the bank's credit risk, compliance and reputation criteria.

At the end of the meeting, the Committee prepares a summary of the decisions taken on compensation. This summary is presented at the Nomination and Remuneration Committee of the Board of Directors that follows the People Committee.

Role of the Nomination and Remuneration Committee

On the basis of a summary produced by the People Committee, the Nomination and Remuneration Committee gives its opinion on the bank's compensation policies and practices, ensuring they are consistent with the HSBC Group policy and that they comply with applicable

Risk management and control within the HSBC France group (continued)

local standards. It also ensures that risk management and compliance issues are taken into account.

Its scope of responsibility covers all compensation policies and practices in place within the company, with a more in-depth review of market professionals and Executive Directors.

It also reviews the remuneration paid to Executive Directors and submits its recommendations to the Board of Directors.

Role of the Risk and Compliance functions as regards remuneration policies

The Risk and Compliance functions are, in accordance with the HSBC Group rules (Functional Instruction Manual – FIM and Group Standards Manual – GSM) referred to for advice on laying down compensation policies on introducing new variable compensation systems and finally during the pay review process when allocating individual discretionary variable.

Thus, since 2009, situations of failure of compliance and infringements of internal rules of procedure, identified by the Risk and Compliance functions, have been taken into account when awarding variable compensation.

To strengthen the Risk and Compliance functions, throughout the year and especially during the annual salary review process when individual variable compensation is decided, certain changes were made in 2010.

On a practical level, these functions are responsible, in their respective fields of operation, for:

– listing, throughout the year, all instances of non-adherence to compliance rules and/or rules of internal procedure and/or rules concerning risk or security information;
– notifying the cases listed to the manager of the business involved or to his deputy and to HSBC France's Head of Compliance;
– advising the HR managers involved of cases observed that are likely to lead to disciplinary proceedings;
– listing and summarising all problems of breaches of compliance regulations and/or internal procedures and/or risk procedures and notifying them to the Head of the Risk function;
– keeping a record of each of the breaches and any resolution of them;
– if necessary, providing feedback to management for possibly making changes to the "balanced scorecard" of the employees involved in the breaches.

Especially during the salary review process, the Head of Compliance must organize and take part in breaches review Committees in the presence of the Head of Business or Function concerned, of the Head of HR and of the Deputy CEO in charge of risks. These Committees aim to assess the severity of cases on the basis of information reported by risk functions and taking into account the business's or HR's comments.

For all identified breaches cases, and even more for the ones identified as high or very high the Committee should decide:

– the potential adjustment on performance rating
– the impact (significant, marginal or nil) on the variable compensation of the employees concerned;
– whether the "clawback" rule needs to be applied, cancelling some or all previously awarded shares, depending on the severity of the event.

After these decisions, the HR Department checks that any adjustments validated by the Committee is dully uploaded into the Group Pay Review System (GPRS) with the appropriate rational.

If the proposed variable compensation requires it (above a certain threshold), Risk and Compliance functions may be asked to contribute to the preparation of a business case setting out the compliance breach and/or internal rule breach and its impact on variable compensation.

The Human Resources Department notifies the People Committee and the RemCo of the list of decisions giving a summary of the individual and/or group behaviour that breached internal rules in terms of risk or compliance.

Environmental risk

The management of environmental risks is described in the Corporate, social and environmental responsibility section on pages 64 to 65.

Dependency

HSBC France outsources services outside the HSBC Group and from other parts of the HSBC Group and has put in place governance structures and systems to ensure the monitoring of such activities, particularly those identified as "essential" within the terms of the order of 3 November 2014 on internal control of banking sector companies,

In 2013, HSBC France transferred part of its IT production, development and testing for businesses excluding Global Banking and Markets segment, to the HSBC Group's two European IT centres as part of the DataCentre Integration project.

As an over 99.9 per cent subsidiary of the HSBC Group, HSBC France is likely to be negatively impacted by the consequences of potential matters, e.g. reputational or non-compliance faced by other Group entities.

Insurance and risk coverage

The HSBC Group in France is included in Global insurance programmes by HSBC Holdings plc aimed at covering major risks (banking risks, fraud, professional liability, directors and senior executives liability).

Amounts of cover are determined on an 'extreme' loss basis impacting on Group businesses.

Retention amounts allow for a robust risk prevention policy.

Some *Masters* programmes are arranged with a local policy issuance, especially real estate assets damage and related business disruption insurance. Real estate assets are insured for their replacement value which varies across sites. Risk visits by insurance inspectors are planned on a regular basis.

Local specific insurance needs for its, HSBC France, in accordance with France regulatory requirements, centrally arranges local insurance programmes, such as civil liability insurance for regulated activities, fleet of vehicles, etc.

Overall, levels of coverage, retentions are:

– insurance market conditions, business rules and practices, and with regulations;
– Commensurate with the value of the assets and the potential impact on the balance sheets of HSBC France and HSBC Holding plc.

The total amount of insurance premiums paid represented 0.31 per cent HSBC France group 2014 Net operating income.

Most programmes, notably the international ones, involve the participation of an HSBC Group reinsurance company.

Business partners, whether brokers, insurance companies or s, are selected in accordance with a strict selection and solvency monitoring policy.

Encumbered and unencumbered assets

Following EBA guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03), the information is disclosed as follows:

Assets

(in millions of euros)	***Carrying amount of encumbered assets***	***Fair value of encumbered assets***	***Carrying amount of non-encumbered assets***	***Fair value of non-encumbered assets***
Assets of the reporting institution				
Equity instruments	–	–	208,370	207,836
Debt securities	24,885,229	24,885,229	15,515,730	15,515,730
Other assets	6,374,038	–	133,621,587	–

Collateral received

(in millions of euros)	***Fair value of encumbered collateral received or own debt securities issued***	***Fair value of collateral received or own debt securities issued available for encumbrance***
Guaranties received by the concerned institution		
Equity instruments	–	–
Debt securities	27,436,509	16,200,419
Other collateral received	–	–
Own debt securities issued other than own debentures or asset backed Securities	–	–

Encumbered assets/ collateral received and associated liabilities

(in millions of euros)	***Matching liabilities, contingent liabilities or securities lent***	***Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered***
Carrying amount of selected financial liabilities	27,851,504	60,347,677

Financial highlights*

HSBC France group

(in millions of euros)	**2014**	2013	2012	2011	2010
Profit before tax	**232**	546	388	59	512
Profit attributable to shareholders	**198**	383	321	124	454
Profit before tax for the HSBC Group's operations in France[1]	**252**	654	559	191	628
At 31 December					
Shareholders' funds	**5,733**	5,391	5,213	4,820	4,832
Loans and advances to customers and banks	**42,262**	40,235	76,486[3]	82,984[3]	95,291[3]
Customers' accounts and deposits by banks	**40,656**	36,974	75,356[4]	75,234[4]	86,055[4]
Total assets	**201,018**	208,893	225,208	221,390	210,836
Number of employees (full-time equivalents)	**9,402**	9,533	9,570	10,030	10,121
Capital ratios					
Total capital[2]	**14.1%**	13.7%	12.6%	10.7%	12.0%
Common Equity Tier One capital[2]	**14.1%**	13.7%	12.6%	10.7%	12.1%
Cost efficiency ratio	**82.2%**	70.9%	75.9%	90.6%	73.0%

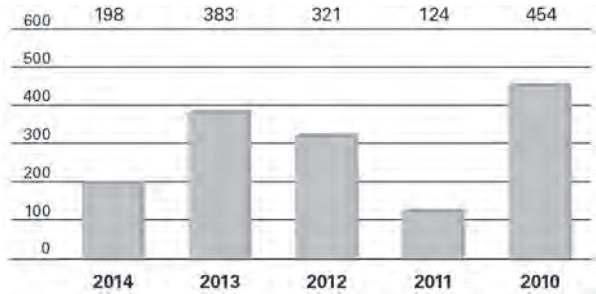
The financial highlights are influenced by changes in the group structure over the five years. The most significant changes are as follows:

– in 2010: disposal by HSBC France of HSBC Securities Services (France) to CACEIS;

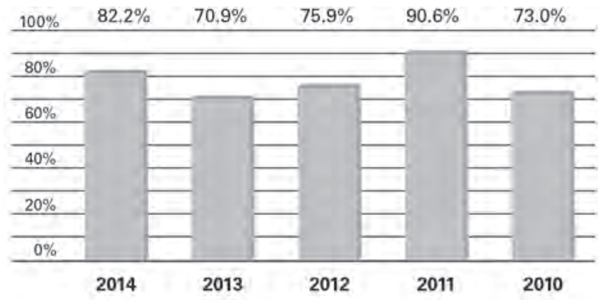
– in 2011: disposal by Sinopia Asset Management of Sinopia Asset Management (Asia Pacific) Limited to HSBC Global Asset Management (Hong Kong) Limited and Sinopia Asset Management (UK) Limited to HSBC Global Asset Management (UK) Limited. Disposal by HSBC Private Bank France of LGI to HSBC Private Bank (Luxembourg) SA;

– in 2013: acquisition by HSBC France of 100 per cent of the share capital of HSBC Assurances Vie (France) from HSBC Bank plc Paris Branch.

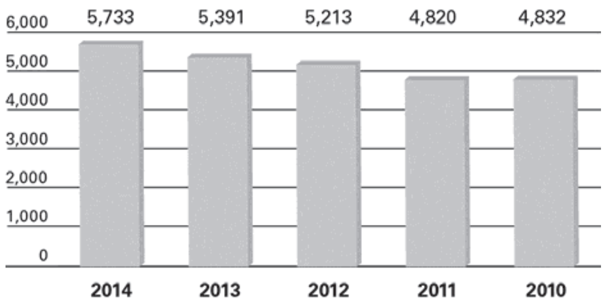
Profit attributable to Shareholders (in millions of euros)



Cost efficiency ratio



Shareholders' funds (in millions of euros)



* *Published consolidated financial information – HSBC France legal perimeter. In accordance with IFRS as endorsed by the EU.*

1 *The contribution of France to the results of the HSBC Bank plc operations includes the HSBC France group,* i.e. *the results of entities legally owned by HSBC France but located outside France,* i.e. *the legal scope in its entirety, and also the Paris branch of HSBC Bank plc, which is engaged in equity derivative activities, as well as HSBC Assurances Vie (France) and HSBC Assurances IARD (France), to the exclusion of the costs of funding and the debt on acquisition recognised by HSBC Bank plc Paris Branch.*

2 *Capital ratios under Basel II in 2010 and 2011, capital ratios under Basel 2.5 in 2012 and 2013, capital ratios under Basel III in 2014.*

3 *Including reverse repos.*

4 *Including repos.*

Ratings

HSBC France is rated by three main agencies: Standard & Poor’s, Moody’s and Fitch.

	Standard & Poor’s	Moody’s	Fitch
Long-term rating	AA -	A1	AA -
Outlook	Negative Creditwatch	Negative	Stable
Short-term rating	A-1+	P-1	F1+
Last update	3 February 2015	3 September 2014	27 November 2014

HSBC France's ratings have been reviewed during the year by all the agencies and remained unchanged despite the persistent sluggish economic environment and increasing regulatory requirements for financial institutions. Due to the strong integration of France within the HSBC Group, HSBC France's ratings evolved coherently with those of its parent company HSBC Bank plc. In 2014, Moody’s have placed HSBC France and the other major European banks under negative outlook with respect to the re-assessment of the government support.

In February 2015, due to the completion of resolution mechanisms in the United Kingdom, Standard and Poor's downgraded the main UK banks, HSBC Holdings plc amongst others. This action is conducted in relation with the less likelihood prospect of extraordinary government support and the agency placed operational subsidiaries under Creditwatch with negative implication to be resolved within 90 days. Amongst subsidiaries are HSBC Bank plc and HSBC France which ratings are aligned with those of its parent's.

Information on supplier payable amounts schedule

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

At 31 December 2014, amounts payable to suppliers of HSBC France were EUR 127.6 million, of which 38 per cent with a due date less than 30 days.

At 31 December 2013, amounts payable to suppliers of HSBC France were EUR 65.5 million, of which 21 per cent with a due date less than 30 days. Except for specific agreements with suppliers, payments are made within 45 days of invoice date.

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2014

(in millions of euros)	Notes	31.12.2014	31.12.2013
Interest income[1]		**1,960**	1,508
Interest expense		**(348)**	(405)
Net interest income		**1,612**	1,103
Fee income		**868**	949
Fee expense		**(209)**	(216)
Net fee income		**659**	733
Trading income excluding net interest income		**(272)**	220
Net interest income on trading activities		**212**	160
Net trading income		**(60)**	380
Changes in fair value of long term debt issued and related derivatives		**(50)**	(39)
Net Income/(expense) from other financial instruments designated at fair value[1]		**349**	8
Net income (expense) from financial instruments designated at fair value		**299**	(31)
Gains less losses from financial investments		**43**	11
Dividend income		**4**	3
Net earned insurance premiums[1]		**1,926**	–
Other operating income[1]		**(133)**	23
Total operating income		**4,350**	2,222
Net insurance claims incurred and movement in liabilities to policyholders[1]		**(2,421)**	–
Total operating income before loan impairment (charges)/release and other credit risk provisions		**1,929**	2,222
Loan impairment charges and other credit risk provisions		**(112)**	(97)
Net operating income	*4*	**1,817**	2,125
Employee compensation and benefits[1]	*5*	**(948)**	(921)
General and administrative expenses[1]		**(584)**	(597)
Depreciation of property, plant and equipment	*19*	**(45)**	(48)
Amortisation of intangible assets and impairment of goodwill	*18*	**(8)**	(9)
Total operating expenses		**(1,585)**	(1,575)
Operating profit		**232**	550
Share of profit in associates and joint ventures		**–**	(4)
Profit before tax		**232**	546
Tax expense	*7*	**(33)**	(163)
Net profit of discontinued operations		**–**	–
Profit for the period		**199**	383
Profit attributable to shareholders of the parent company		**198**	383
Profit attributable to non-controlling interests		**1**	–

1 *HSBC Assurances Vie (France)'s acquisition on 13 December 2013 has been described on page 128 of the Annual Report and Accounts 2013. For accounting purposes, HSBC Assurances Vie (France) was consolidated by full consolidation within HSBC France perimeter as at the end of 2013. For the profit and loss generated, 2013 full year profit was kept within HSBC Bank plc books. HSBC France consolidated income statement at 31 December 2014 integrates profit or loss generated by HSBC Assurances Vie (France). Contribution from HSBC Assurances Vie (France) to HSBC France profit or loss at 31 December 2014 amounts for EUR (39) million (net loss for the year).*

(in euros)			
Basic earnings per ordinary share	*9*	**2.94**	5.68
Diluted earnings per ordinary share	*9*	**2.94**	5.68
Dividend per ordinary share	*9*	**2.23**	1.78

Consolidated statement of comprehensive income for the year ended 31 December 2014

(in millions of euros)	**31.12.2014**	31.12.2013
Profit for the period (a)	**199**	383
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments: (b)	**32**	8
– fair value gains/(losses) taken to equity	**80**	19
– fair value gains/(losses) transferred to the income statement on disposal	**(43)**	(7)
– amounts transferred to/(from) the income statement in respect of impairment losses	**12**	(1)
– income taxes	**(17)**	(3)
Cash flow hedges: (c)	**109**	(132)
– fair value gains/(losses) taken to equity	**259**	(111)
– fair value (gains)/losses transferred to income statement on disposal	**(90)**	(93)
– income taxes	**(60)**	72
Exchange differences (d)	**11**	(7)
Other comprehensive income for the period, reclassified in income statement on certain conditions (b) + (c) + (d) = (e)	**152**	(131)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of the defined benefit asset	**(3)**	(3)
– before income taxes	**(6)**	(5)
– income taxes	**3**	2
Total variation of assets and liabilities that cannot be reclassified in income statement (f)	**(3)**	(3)
Total comprehensive income for the period (a) + (e) + (f)	**348**	249
Total comprehensive income for the year attributable to:		
– shareholders of the parent company	**342**	251
– non-controlling interests	**6**	(2)
	348	249

Consolidated financial statements (continued)

Consolidated balance sheet at 31 December 2014

ASSETS

(in millions of euros)	*Notes*	**31.12.2014**	31.12.2013
Cash and balances at central banks		**523**	5,994
Items in the course of collection from other banks		**367**	607
Trading assets	*12*	**38,720**	41,601
Financial assets designated at fair value	*13*	**6,156**	6,239
Derivatives	*14*	**70,567**	59,506
Loans and advances to banks[1]	*32*	**6,022**	5,707
Loans and advances to customers[1]	*32*	**36,240**	34,528
Reverse repurchase agreements – non-trading[1]	*26*	**14,796**	28,012
Financial investments available for sale	*15*	**24,672**	23,690
Other assets[2]		**283**	265
Current tax assets[2]	*7*	**99**	77
Prepayments and accrued income		**1,021**	1,141
Interests in associates and joint ventures	*17*	**1**	2
Goodwill and intangible assets	*18*	**709**	869
Property, plant and equipment	*19*	**706**	594
Deferred tax assets	24	**136**	61
TOTAL ASSETS		**201,018**	208,893

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**31.12.2014**	31.12.2013
Liabilities			
Deposits by banks[1]	*32*	**7,021**	4,091
Customer accounts[1]	*32*	**33,635**	32,883
Repurchase agreements – non trading[1]	*26*	**15,938**	33,525
Items in the course of transmission to other banks		**368**	585
Trading liabilities	*29*	**29,407**	37,031
Financial liabilities designated at fair value	*22*	**6,911**	8,129
Derivatives	*14*	**69,583**	56,591
Debt securities in issue		**9,237**	9,017
Other liabilities	*23*	**989**	996
Current tax liabilities	*7*	**24**	15
Liabilities under insurance contracts	*27*	**20,803**	19,354
Accruals and deferred income		**714**	897
Provisions for liabilities and charges	*25*	**147**	163
Deferred tax liabilities	*24*	**3**	2
Retirement benefit liabilities	*5*	**158**	161
Subordinated liabilities	*28*	**276**	16
TOTAL LIABILITIES		**195,214**	203,456
Equity			
Called up share capital	*34*	**337**	337
Share premium account		**16**	16
Other reserves[3]		**1,701**	1,561
Retained earnings[3]		**3,679**	3,477
TOTAL SHAREHOLDERS' EQUITY		**5,733**	5,391
Non-controlling interests		**71**	46
TOTAL EQUITY		**5,804**	5,437
TOTAL EQUITY AND LIABILITIES		**201,018**	208,893

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*
2 *At 31 December 2013, current tax (EUR77 million) was included in 'Other assets'. It is now presented under a dedicated line of the balance sheet.*
3 *At 31 December 2013, 'Other reserves' and 'Retained earnings' were aggregated under 'Other reserves and retained earnings'.*

Consolidated statement of changes in equity for the year ended 31 December 2014

	31.12.2014									
				Other reserves						
(in millions of euros)	Called up share capital	Share premium	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
At 1 January 2014	**337**	**16**	**3,477**	**101**	**(54)**	**(26)**	**1,540**	**5,391**	**46**	**5,437**
Profit for the period	–	–	198	–	–	–	–	198	1	199
– available-for-sale investments	–	–	–	32	–	–	–	32	–	32
– cash flow hedges	–	–	–	–	109	–	–	109	–	109
– actuarial gains/(losses) on defined benefit plans	–	–	(3)	–	–	–	–	(3)	–	(3)
– exchange differences and other	–	–	–	–	–	6	–	6	5	11
Other comprehensive income (net of tax)	–	–	(3)	32	109	6	–	144	5	149
Total Comprehensive income for the period	–	–	195	32	109	6	–	342	6	348
– dividends to shareholders	–	–	–	–	–	–	–	–	–	–
– exercise and lapse of share options and vesting of share awards	–	–	(12)	–	–	–	–	(12)	–	(12)
– cost of share-based payment arrangements	–	–	11	–	–	–	–	11	–	11
– other Movements	–	–	(10)	–	–	–	11	1	(1)	–
– transfers	–	–	18	–	–	–	(18)	–	–	–
– changes in ownership interest in subsidiaries that did not result in loss of control	–	–	–	–	–	–	–	–	20	20
Total Other	–	–	7	–	–	–	(7)	–	19	19
At 31 December 2014	**337**	**16**	**3,679**	**133**	**55**	**(20)**	**1,533**	**5,733**	**71**	**5,804**

Consolidated financial statements (continued)

	31.12.2013									
				Other reserves						
(in millions of euros)	Called up share capital	Share premium	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve	Total share-holders' equity	Non-controlling interests	Total equity
At 1 January 2013	337	16	3,172	68	78	2	1,540	5,213	48	5,261
Profit for the period	–	–	383	–	–	–	–	383	–	383
– available-for-sale investments	–	–	–	8	–	–	–	8	–	8
– cash flow hedges	–	–	–	–	(132)	–	–	(132)	–	(132)
– actuarial gains/(losses) on defined benefit plans	–	–	(3)	–	–	–	–	(3)	–	(3)
– exchange differences and other	–	–	23	–	–	(28)	–	(5)	(2)	(7)
Other comprehensive income (net of tax)	–	–	20	8	(132)	(28)	–	(132)	(2)	(134)
Total Comprehensive income for the period	–	–	403	8	(132)	(28)	–	251	(2)	249
– dividends to shareholders	–	–	(360)	–	–	–	–	(360)	–	(360)
– exercise and lapse of share options and vesting of share awards	–	–	(39)	–	–	–	–	(39)	–	(39)
– cost of share-based payment arrangements	–	–	16	–	–	–	–	16	–	16
– other Movements	–	–	285	25	–	–	–	310	–	310
– transfers	–	–	–	–	–	–	–	–	–	–
– changes in ownership interest in subsidiaries that did not result in loss of control	–	–	–	–	–	–	–	–	–	–
Total Other	–	–	(98)	25	–	–	–	(73)	–	(73)
At 31 December 2013	337	16	3,477	101	(54)	(26)	1,540	5,391	46	5,437

Consolidated cash flow statement for the year ended 31 December 2014

(in millions of euros)	*Notes*	**31.12.2014**	31.12.2013
Cash flows from operating activities			
Profit before tax		**232**	546
Net profit on discontinued operations		**–**	–
– non-cash items included in net profit	*35*	**125**	(36)
– change in operating assets	*35*	**(4,841)**	(20,776)
– change in operating liabilities	*35*	**(13,965)**	15,965
– change in assets/liabilities classified as held for sale (including cash flows)		**–**	–
– elimination of exchange differences		**5**	(498)
– net (gain)/loss from investing activities		**(47)**	(17)
– share of profits in associates and joint ventures		**–**	(4)
– dividends received from associates		**–**	–
– tax paid		**(173)**	(180)
Net cash flows from operating activities		**(18,664)**	(5,000)
Cash flows (used in)/from investing activities			
Purchase of financial investments		**(4,988)**	(3,859)
Proceeds from the sale of financial investments		**5,086**	2,133
Purchase of property, plant and equipment		**(141)**	(340)
Proceeds from the sale of property, plant and equipment		**2**	3
Purchase of goodwill and intangible assets		**(7)**	(6)
Net cash outflow from acquisition of and increase in stake of subsidiaries		**–**	275
Net cash inflow from disposal of subsidiaries		**–**	–
Net cash outflow from acquisition of and increase in stake of associates		**–**	–
Proceeds from disposal of associates		**–**	2
Net cash flows (used in)/from investing activities		**(48)**	(1,792)
Cash flows (used in)/from financing activities			
Issue of shares to an NCI		**20**	–
Issue of ordinary shares capital		**–**	–
Net purchases of own shares		**–**	–
Increase in non-equity non-controlling interests		**–**	–
Subordinated loan capital issued		**260**	–
Subordinated loan capital repaid		**–**	(150)
Dividends paid to shareholders		**–**	(360)
Dividends paid to non-controlling interests		**–**	–
Net cash flows (used in)/from financing activities		**280**	(510)
Net increase in cash and cash equivalents		**(18,432)**	(7,304)
Cash and cash equivalents at 1 January		**22,507**	29,820
Effect of exchange rate changes on cash and cash equivalents		**52**	(9)
Cash and cash equivalents at 31 December		**4,127**	22,507

Consolidated financial statements (continued)

Notes to the consolidated financial statements

1 Basis of preparation and future accounting development

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

These consolidated financial statements were approved by the Board of Directors on 6 February 2015

a *Compliance with International Financial Reporting Standards*

International Financial Reporting Standards (IFRSs) comprise accounting standards issued or adopted by the International Accounting Standards Board (IASB) as well as interpretations issued or adopted by the IFRS Interpretations Committee (IFRIC).

The consolidated financial statements of HSBC France have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs could differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs were not to be endorsed by the EU. At 31 December 2014, there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC France. Accordingly, HSBC France's financial statements for the year ended 31 December 2014 are prepared in accordance with IFRSs as issued by the IASB.

On 1 January 2014, the HSBC Group and HSBC France adopted the following new standards and revisions to existing standards described below. The financial impacts are not significant to these annual consolidated financial statements:

– Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities', which clarified the requirements for offsetting financial instruments and addressed inconsistencies found in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments have been applied retrospectively by HSBC France.
– The interpretation of IFRIC 21 that details the recognition of duties and taxes collected by public authorities. This interpretation concerns levies (fines and penalties excluded) under scope of IAS 37 'Provisions and other contingent liabilities'. HSBC France chose to early adopt this interpretation from 1 January 2014, which is mandatory for years opened on 1 January 2015. According to IFRIC 21, the expense and liability have to be fully recognised when levies are due;
– Amendments to IAS 19 which explains the accounting treatment of staff (or third persons) contributions to defined benefit plans.

b *Future accounting developments*

In addition to its projects discussed below, the IASB is working on projects on insurance and lease accounting which could represent significant changes to accounting requirements in the future.

The following standards and amendments have been issued by the IASB but not yet endorsed by the EU:

– In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. HSBC France is currently examining the possible impact of that new standard on its financial statements;
– In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This new standard introduces new requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

1 Basis of preparation and future accounting development *(continued)*

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their assets' management and their contractual cash flow characteristics. Therefore financial assets are carried at amortised cost, at fair value through OCI ('FVOCI') or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise, for example, since IFRS 9 does not apply embedded derivative accounting to financial assets as for equity securities, they will be measured at fair value through profit or loss or, in limited circumstances, at fair value through OCI. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortised cost or at fair value compared with IAS 39. The classification of financial liabilities remains essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in OCI.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, to lease receivables and to certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the lifetime of the financial instrument ('lifetime ECL').

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and future economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, to create a stronger link between hedge accounting and risk management strategy and enabling the former to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To avoid any potential conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

The classification as of measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the 1 January 2018, with no requirement to restate comparative periods. Hedge accounting will generally be applied prospectively from that date.

The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation to certain liabilities measured at fair value from an earlier date. HSBC France intends to revise the presentation of fair value gains and losses relating to the entity's own credit risk on certain liabilities as soon as permitted by EU law.

HSBC France is currently assessing the potential impact of that new standard on its financial statements.

c *New layout of the Financial Statements and Notes on the Financial Statements*

– In order to make the financial statements and notes thereon easier to understand, the Group HSBC and HSBC France have changed the location of certain accounting policies and changed the order of certain sections. Accounting policies have been described, whenever possible, within the relevant Notes to the related financial statements. These changes in the wording do not represent any accounting policies' changes.

1 Basis of preparation and future accounting development *(continued)*

– At 31 December 2013, repurchase agreements at amortized cost were presented under ‘Deposits by banks’ and ‘Customer accounts’ and reverse repurchase agreements at amortized cost were presented under ‘Loans and advances to banks’ and ‘Loans and advances to customers’. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet. This disclosure harmonizes the communication of these operations with market practices and provides more relevant information about loans and advances.

d *Use of estimates and assumptions*

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; thus actual results in the future may differ from those reported.

Management believes that HSBC France’s most significant critical accounting policies where judgement is necessarily applied are the following

– Impairment of loans and advances: refer to Note 36;
– Deferred tax assets: refer to Note 7 and 24;
– Valuation of financial instruments: refer to Note 30;
– Goodwill impairment: refer to Note 18;
– PVIF: refer to Note 18;

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

e *Consolidation*

The HSBC France group’s (the ‘group’) consolidated financial statements consist of the financial statements of HSBC France, its subsidiaries, HSBC France’s interests in joint ventures and associates as at 31 December.

Acquisitions

Acquired subsidiaries are consolidated from the date when HSBC France takes control and until the date on which this control ends.

HSBC France’s acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is recognised at fair value at the date on which HSBC France takes control, taking into account the costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities are recognised at fair value at the acquisition date. The difference between the acquisition cost and fair value of the portion of identifiable net assets attributable to HSBC France is recognised as goodwill if positive and immediately taken to income if negative.

Consolidation methods

HSBC France controls and consequently consolidates an entity if the 3 following criteria are combined:

– HSBC France holds power over an entity;
– is exposed to variable returns of the entity;
– has the ability to use its power over the investee to affect the investor's returns.

Joint ventures are reported using the equity method. HSBC France has joint control over a company when, as part of a contractual agreement, strategic financial and operating decisions relating to the company’s activity require the unanimous consent of all the venturers sharing control.

Companies over which HSBC France has a significant influence are accounted for as associates. Significant influence is the power to participate in the financial and operating decisions of an entity without controlling it.

In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement.

In the event that the amounts of net assets acquired exceeds the amount or the fair value of the group’s previously held equity interest, the difference is recognised immediately in the income statement.

Consolidated financial statements (continued)

1 Basis of preparation and future accounting development *(continued)*

Changes in a parent company's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the group are consolidated from the date the group takes control until the date the group loses control of the entity.

The group performs a re-assessment of the consolidation perimeter whenever there is a change in the facts and circumstances of determining the control of any entity.

Elimination of internal transactions

All internal transactions to the HSBC France group are eliminated on consolidation.

Share of the results and reserves of joint ventures and associates

The consolidated financial statements include the share of the results and reserves of joint ventures and associates owed to HSBC France, based on financial statements updated not earlier than three months prior to 31 December.

2 Significant accounting policies

a *Foreign currencies*

Items included in the financial statements of each of HSBC France's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements of HSBC France are presented in euros. Transactions in foreign currencies are recorded in the income statement at the functional currency and converted at the exchange rate prevailing at the date of the statement of account. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised in the income statement if the gain or loss on the non-monetary item is recognised in the income statement.

In the consolidated financial statements, the assets, and liabilities of branches, subsidiaries, and associates whose functional currency is not euros, are translated into the group's presentational currency at the rate of exchange ruling at the balance sheet date.

On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement.

b *Loans and advances to banks and customers*

Loans and advances to banks and customers include loans and advances originated by HSBC France, which are not intended to be sold in the short term and have not been classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when either borrowers repay their obligations, or the loans are sold or written off or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

For certain leveraged finance and syndicated lending activities, the group may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of the group. Where the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a trading derivative and measured at fair value through profit and loss.
On drawdown, the loan is classified as held for trading and measured at fair value through profit and loss. Where it is not the group's intention to trade the loan, a provision on the loan commitment is only recorded where it is probable that the group will incur a loss. This may occur, for example, where a loss of principal is probable or the interest rate charged on the loan is lower than the cost of funding. On inception of the loan, the hold portion is recorded at its fair value and

2 Significant accounting policies *(continued)*

subsequently measured at amortised cost using the effective interest method. However, where the initial fair value is lower than the cash amount advanced, the write down is charged to the income statement. The write down will be recovered over the life of the loan, through the recognition of interest income using the effective interest rate method, unless the loan becomes impaired. The write down is recorded as a reduction to other operating income.

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c *Impairment of loans and advances*

Losses for impaired loans are recognised promptly when there is objective evidence of impairment. Impairment losses are calculated on individual loans and on loans assessed collectively.

Losses expected from future events, no matter how likely, are not recognised.

Individually assessed loans

Impairment losses on individually assessed accounts are determined by an evaluation of the exposures on a case-by-case basis. HSBC France assesses individually at each balance-sheet date whether objective evidence of impairment exists.

In determining such impairment losses on individually assessed accounts, the following factors are considered:

– HSBC France's aggregate exposure to the customer;
– the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
– the likely dividend available on liquidation or bankruptcy;
– the extent of other creditors' commitments ranking ahead of, or *pari passu* with, HSBC France and the likelihood of other creditors continuing to support the company;
– the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
– the amount and timing of expected receipts and recoveries;
– the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
– the likely deduction of any costs involved in recovery of amounts outstanding;
– the ability of the borrower to obtain and make payments in the relevant foreign currency if loans are not in local currency; and,
– where available, the secondary market price for the debt.

Impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value. The amount of any loss is charged in the income statement. The carrying amount of impaired loans is reduced through the use of an allowance account.

Collectively assessed loans

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit-risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:

– historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product, etc.);
– the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and,
– management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The estimated period between a loss occurring and its identification may consequently vary over time as these factors change.

2 Significant accounting policies *(continued)*

Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security have been received.

Reversals of impairment

If the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans for measurement purposes once the minimum numbers of payments required under the new arrangements have been received. Renegotiated loans are considered when calculating collective impairment provisions, by segregation from other parts of the loan portfolio, to recognise that higher rates of losses are often encountered in this segment of the portfolio. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans taking into account the new contractual terms following renegotiation.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

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d *Impairment of available-for-sale financial assets*

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provision' in the income statement and impairment losses for available-for-sale equity securities are recognised within 'Gains less losses from financial investments' in the income statement. The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

2 Significant accounting policies *(continued)*

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the related available-for-sale financial asset:

– For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in fair value of the financial asset is recognised in other comprehensive income. If the fair value of the debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.

– For an available-for-sale equity security, all subsequent variations in the fair value of the instrument are directly accounted for in the other comprehensive income. Impairment losses recognised on equity securities are booked through the income statement. Subsequent decreases in the fair value of the available-for-sale equity securities are recognised in the income statement, based on all cumulated and future impairments and in association with the equity securities' cost of acquisition.

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e *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments except those classified as held-for-trading or designated at fair value (other than debt issued by HSBC France and related derivatives) are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate at inception that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, HSBC France estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by HSBC France that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

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f *Other income*

Fee income

HSBC France earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

– if the income is earned on the execution of a significant act, it is recognised when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of shares or other securities);

– if the income is earned as services are provided, it is recognised as the services are provided (for example, asset management, portfolio and other management advisory and service fees);

– if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in 'Interest income and expense' (see Note 2 e).

2 Summary of principal accounting policies *(continued)*

Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for equity securities.

Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit and loss. Interest income and expense and dividend income arising on those financial instruments are also included, except for debt securities in issue by HSBC France and derivatives managed in conjunction with debt securities in issue. Interest on these instruments is shown in 'Net interest income'.

Trading income

Trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held-for-trading, together with related interest income, expense and dividends.

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g *Insurance contracts*

Through its insurance subsidiary, HSBC France issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which HSBC France accepts insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4.

Insurance contracts are accounted for as follows:

Insurance premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Insurance claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

Future profit participation on insurance contracts with discretionary participation features

In accordance with the Code des assurances, a discretionary participation is allocated to non-linked investments contract based on actual net financial income. At least 85% is allocated to policyholders; the remaining amount is accounted for as deferred participation and should be distributed to customers within 8 years.

2 Summary of principal accounting policies *(continued)*

Present value in force of existing contracts

Under HSBC France, Life insurance business is accounted for in accordance with the embedded value method which reflects a more complete frame of risk and valuation calculation. The PVIF (Present Value of In-Force) corresponds to the present value of future profits arising from existing insurance contracts.

The PVIF is an intangible asset, and its variation is recorded as other operating income.

Investment contracts with discretionary participation features

While investment contracts with discretionary participation features are financial instruments, they continue to be treated as insurance contracts as permitted by IFRS 4. The premiums for those contracts are recognised as revenue and the resulting increase in the carrying amount of the liability is recognised as an expense.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable. Movements in the liabilities arising from realised gains and losses on relevant assets are recognised in the income statement.

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h *Reclassification of financial assets*

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in particular circumstances:

- financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity;
- financial assets (except financial assets that would have met the definition of loans and receivables) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

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i *Securities lending/borrowing agreements*

Securities lending/borrowing agreements are usually collateralized either by cash or bonds.

Stock versus stock transactions are usually not recognised.

Cash collateral either given or received is respectively recognised either as an asset or a liability.

3 Business combination and disposal of subsidiaries

On 13 December 2013, HBSC France acquired 100 per cent of the shares in HSBC Assurances Vie (France) owned by the French branch of HSBC Bank plc. The purchase was achieved through cash settlement of EUR 514 million, with no gain or loss realised by HSBC Bank plc.

For accounting purposes, HSBC Assurances Vie (France) has been consolidated by full consolidation within HSBC France perimeter as at the end of 2013. To simplify, the profit and loss generated in 2013 by the Insurance activity, has been kept within HSBC Bank plc books.

This purchase transaction occurred within the same group. It is not subject to IFRS 3 'Business combination', and therefore is not subject to the application of assets acquired and liabilities assumed fair value. The difference between the consideration paid and the Net Asset Value (NAV) acquired is reflected in HSBC France shareholders' funds for an amount of EUR 275 million. The entities entered in the consolidated perimeter in 2013 following this acquisition are listed within Note 20 'Investments'.

Beyond the acquisition of HSBC Assurances Vie (France), HSBC France carried on simplifying its legal structure detailed in Note 20. The extend of the deconsolidated operations is not significant at 31 December 2014.

HSBC Assurances Vie (France) contribution to HSBC France's income as of 31 December 2014 amounts to EUR (39) million (net income after tax). As a reminder, it was of EUR (79) million as of 31 December 2013.

4 Net operating income – significant items

Net operating income for the year ended at 31 December 2014 amounts to EUR 1,817 million (2013: EUR 2,125 million) and includes in particular, but not exhaustively, income, expense, gains and losses as follows:

(in millions of euros)	**31.12.2014**	31.12.2013
Income		
Fees earned on financial assets or liabilities not held for trading nor designated at fair value and not included in their effective interest rates[2]	**701**	683
Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers	**209**	213
Income from listed investments[1]	**1,318**	820
Income from unlisted investments[1]	**11**	5
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value[2]	**(348)**	(405)
Fees payable on financial assets or liabilities not held for trading nor designated at fair value and not included in their effective interest rates[2]	**(209)**	(216)
Fees payable on trust and other fiduciary activities where the group holds or invests assets on behalf of its customers	**–**	–
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**14**	3
Gains/(losses) on financial investments	**43**	11
– equity securities	**(4)**	(1)
– debt securities	**28**	(3)
– impairment of available-for-sale equity shares	**19**	15
Loan impairment charges and other credit risk provisions	**(112)**	(97)
– net impairment charge on loans and advances	**(104)**	(95)
– net impairment of available-for-sale financial investments: debt securities	**(8)**	–
– net impairment in respect of other credit risk provisions	**–**	(2)

1 *Dividends and interest*
2 *Interest margins and payable fees have been reassessed in order to match with the income statement.*

5 Employee compensation and benefits

a *Total employee compensation*[1]

(in millions of euros)	**31.12.2014**	31.12.2013
Wages and salaries	**692**	671
Social security costs	**184**	183
Post-employment benefits	**72**	67
	948	921

1 *Including HSBC Assurances Vie in 2014.*

Number of persons employed by HSBC France at the end of the year [1]:

	31.12.2014	31.12.2013
Retail Banking and Wealth Management	**3,831**	3,831
Commercial Banking	**1,470**	1,551
Global Banking and Markets	**710**	660
Global Private Banking	**107**	118
Support Functions and Others[2]	**3,675**	3,731
Total[3]	**9,793**	9,891

1 *In order to comply with the presentation of the Group HSBC, the number of employees at 31 December 2013 and 2014 are from now on presented by business line.*
2 *Including CFCS and expatriates.*
3 *Permanent contracts (CDI) and fixed-term contracts (CDD) within HSBC France and its subsidiaries HSBC Global Asset Management and HSBC Assurances Vie.*

b *Pension and other post-retirement benefits*

1. policy

HSBC France operates a number of pension and other post-retirement benefit plans. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-retirement health-care benefits.

The costs recognised for funding these post-employment plans are determined using the Projected Unit Credit Method, with annual actuarial valuations performed on each plan. HSBC France recognises actuarial gains and losses directly in equity, without being recognised in income. Past service costs are immediately recognised. The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are charged to operating expenses.

The net defined benefit liability recognised in the balance sheet related to post-employment benefits recognised represents the present value of the defined benefit obligations reduced by the fair value of plan assets.

Payments to defined contribution plans and state-managed retirement benefit plans, where HSBC France’s obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

5 Employee compensation and benefits *(continued)*

2. Post-employment defined benefit plans' principal actuarial assumptions

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2014, and the 2015 periodic costs, were:

(in %)	*Discount rate*	*Deferred revaluation*	*Inflation rate*	*Rate of increase for pensions in payment and deferred pensions*	*Rate of pay increase*	*Healthcare cost trend rate*
At 31.12.2014						
France	**2.0**	**2.0** [1]	**1.5**	**1.5**	**2.7**	–[2]
At 31.12.2013						
France	3.0	3.0[1]	2.0	2.0	3.0	–[2]

1 *Expected Return Rate on Equities.*
2 *HSBC France uses 'mortality tables TGH/TGF05'.*

HSBC France determines discount rates, in consultation with its actuary based upon the current average yield of high quality (AA rated or equivalent) debt instruments, with maturities consistent with that of the defined benefit obligations.

3. Recording of post-employment obligations

Value recognised in the balance sheet

(in millions of euros)	**31.12.2014**	31.12.2013
Equities	**–**	–
Bonds	**11**	12
Property	**–**	–
Other	**–**	–
Fair value of plan assets	**11**	12
Present value of funded obligations	**–**	–
Present value of unfunded obligations	**(169)**	(173)
Defined benefit obligation	**(169)**	(173)
Unrecognised past service cost	**–**	–
Net liability	**(158)**	(161)

5 Employee compensation and benefits *(continued)*

Changes in the present value of the post-employment obligations

(in millions of euros)	**2014**	2013
At 1 January	**173**	168
Current service cost	**4**	5
Interest cost	**5**	4
Contributions by employees	**–**	–
Actuarial (gains)/losses	**6**	6
Benefits paid	**(9)**	(11)
Past service cost – vested immediately	**–**	–
Past service cost – unvested benefits	**–**	–
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements[1]	**(10)**	1
At 31 December	**169**	173

1 *Non post-employment benefit obligation for EUR 10 million has been removed from the scope of this appendix.*

Actuarial gains and losses of the year are composed of:

- EUR 9 million of actuarial assumptions' changes explained by the decrease of the discount rate (EUR 20 million), as well as by the update of the employer's contribution rate, and partially counterbalanced by the increase of salaries and the revaluation of pensions (EUR 11 million);
- EUR (3) million arising from experience adjustments explained by the difference between actuarial assumptions adopted and what really happened over the period.

Changes in the fair value of plan assets

(in millions of euros)	**2014**	2013
At 1 January	**12**	12
Expected return	**1**	1
Contributions by the group	**–**	–
Contributions by employees	**–**	–
Actuarial gain	**–**	–
Benefits paid	**(1)**	(1)
Acquisitions	**–**	–
(Gains)/losses on settlements	**–**	–
Exchange and other movements	**(1)**	–
At 31 December	**11**	12

Total expense recognised in the income statement, in 'Employee compensation and benefits'

Defined benefit pension plans

(in millions of euros)	**31.12.2014**	31.12.2013
Current service cost	**4**	5
Interest cost	**5**	4
Net interest (income) on net defined benefit assets	**–**	–
Past service cost	**–**	–
Total net expense	**9**	9

Consolidated financial statements (continued)

6 Share-based payments

a *Accounting policy*

Share-based payment

Share-based payments are payments based on shares issued by HSBC Holdings plc. HSBC France employees benefit from the following advantages:

– until 2005, HSBC Holdings plc awarded share options on HSBC Holdings plc shares;
– from 2006, HSBC Holdings plc implemented share plans on HSBC Holdings plc shares;
– employees can subscribe to HSBC Holdings plc shares within the employee share ownership plan.

Share option plans

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions and performance conditions. Market conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other conditions are satisfied.

The compensation expense (capital increase and related expense) to be spread on a straight-line basis over the vesting period is determined by reference to the fair value of the options at grant date, and the impact of any non-market vesting conditions such as option lapses. An option may lapse if, for example, an employee ceases to be employed by HSBC France before the end of the vesting period. Estimates of such future employee departures are taken into account when accruing the cost during the service period.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

Share plans

This expense is spread on a straight-line basis over the vesting period with a balancing entry in an equity account. The expense value takes into account assumptions regarding employee departures and performance conditions.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions. Market conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other conditions are satisfied. A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

Where an award has been modified, as a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligation.

Employee share ownership plan

Employees can subscribe to HSBC Holdings plc shares with a discount and without any vesting period. This advantage is expensed immediately as employee compensation and benefits. The five-year lock-in period is not taken into account in the consideration of the expense.

6 Share-based payments *(continued)*

b *Operational application*

In 2005, the HSBC Group significantly revised its employee share option and share policy.

The new rules of share option and share plans were approved by its Annual General Meeting held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule), which complies with the legal and tax regulations applicable in France. This regulation was revised in 2011 firstly to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the 'Group Performance Share Plan', for the HSBC Group's Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subjected to a review, to comply with local social and tax rules. Since 2006, the general policy of the HSBC Group is to award shares instead of share options (except in the case of a country specific legal and tax regulation).

1. Group Share Option Plan

The Group Share Options Plan was a long-term incentive plan available to certain Group employees between 2000 and 2005. The aim of the plan was to align the interests of those higher performing employees to the creation of shareholder value. Options were granted at market value and are normally exercisable between the third and tenth anniversaries of the date when granted, subject to vesting conditions.

Group Share Options without performance conditions

Group share options without performance conditions were granted between 2001 and 2005 to certain Group employees. Options granted in 2003 and 2004 expired respectively in 2013 and in 2014.

	2014		2013	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**15,832**		24,178	
Granted in the year	**–**		–	
Exercised in the year	**–**	–	(5,968)	6.05
Transferred in the year	**–**		–	
Expired in the year	**(9,417)**	**7.22**	(2,378)	6.14
Outstanding at 31 December	**6,415**		15,832	

Share Options with performance conditions

Share options with performance conditions were granted in 2003 and 2004 under the Rules of the HSBC Share Plan to Senior Executives in France and also to certain employees of the Group. Options granted in 2003 and 2004 respectively expired in 2013 and in 2014.

	2014		2013	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**1,320**		**1,320**	
Granted in the year	**–**		**–**	
Exercised in the year	**–**		**–**	
Transferred in the year	**–**		**–**	
Expired in the year	**(1,320)**	**7.22**	–	
Outstanding at 31 December	–		**1,320**	

The amortisation of these plans was based on the fair value of the share-based payments transactions when contracted and runs over the three-year vesting period. These plans were completely amortised in 2008.

The HSBC Holdings plc shares held by the Group to be delivered to the employees are reported in the available-for-sale portfolios and measured at fair value (quoted price).

Consolidated financial statements (continued)

6 Share-based payments *(continued)*

2. Group share plan

The aim of the Group share plan is to recognise individual performance and to retain the highest level performing employees.

The shares can be:

– 'Group Performance Shares' subject to performance conditions;
– 'Restricted Shares' without performance conditions.

'Group Performance Shares'

	2014	2013
	Number (000)	*Number (000)*
Outstanding at 1 January	**–**	–
Capital increase	**–**	–
Granted in the year	**45**	–
Vested in the year	**–**	–
Transferred in the year	**–**	–
Expired in the year	**–**	–
Outstanding at 31 December	**45**	–

This category of shares is available, beyond a vesting period of five years, at the retirement date.

'Restricted Shares'

These shares vest definitely after a two-year or three-year period and according to the rules of the Plan. Shares granted from 2011 will vest 66 per cent after two years and 34 per cent after three years (except for impatriates who are awarded non-qualified restricted shares. These shares vest 33 per cent after one year, 33 per cent after two years and 34 per cent after three years).

	2014	2013
	Number (000)	*Number (000)*
Outstanding at 1 January	**3,934**	8,717
Granted in the year	**1,888**	1,431
Vested in the year	**(2,119)**	(6,145)
Transferred in the year	**–**	–
Expired in the year	**(43)**	(69)
Shares issued	**–**	–
Outstanding at 31 December	**3,660**	3,934

This category of shares cannot be sold before the end of a further two-year tax lock-up period after their vesting.

In 2014, EUR 9.8 million was charged to the income statement in respect of amortisation of the existing plans.

Regulatory and best practice guidance has clarified the required structure and terms of the vesting period that should be recognised in the consolidated financial statements of the HSBC France Group. As a result, the vesting period for deferred share awards expected to be granted in 2014, in respect of the 2013 performance year, was determined to have started on 1 January 2013. Prior to 2011, amortisation started at the date of grant of the shares.

3. Employee share offering

In 2014, the HSBC Group made a capital increase opened to current employees. Employees of the HSBC France Group took up a total of 1,763,449 HSBC Holdings plc shares, representing a total capital amount of EUR 11.8 million.

The cost of the discount based on the share price at the opening of the offer period amounted to EUR 1.6 million for the group.

7 Tax expense

a *Current and deferred tax expense*

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates (and tax regulation) enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when HSBC France intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group, relate to income taxes levied by the same taxation authority, and when a legal right to set off exists in the entity.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised directly in equity. From 1 January 2005, deferred tax relating to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

The amount of deferred tax expense has been recognized at 31 December 2014, taking into account the profit outlook as established in the budget.

Current and deferred tax expense

(in millions of euros)	**31.12.2014**	31.12.2013
Current tax	**186**	161
Deferred tax	**(153)**	2
Tax expense	**33**	163
Effective tax rate (per cent)	**14.1**	29.6

The high variation of deferred tax between 2013 and 2014 is explained by the decrease of IFRS income, particularly on the issues of Covered Bonds, which generate a deferred tax profit.

Analysis of overall tax charges

	31.12.2014		31.12.2013	
(in millions of euros)	***Amount***	***%***	*Amount*	*%*
Taxation at French corporate tax rate	**88**	**38.0**	208	37.8
Impact of overseas profits in principal locations taxed at different rates	**–**	**0.1**	1	0.1
Operations taxed at reduced tax rate in France	**(1)**	**(0.6)**	(3)	(0.6)
Other items including result for tax Group integration	**(54)**	**(23.4)**	(43)	(7.7)
Overall tax charge	**33**	**14.1**	163	29.6

7 Tax expense *(continued)*

Although deemed to be temporary up to 2012, the 2013 Finances Law (‘*Loi de Finances*’) increased the additional contribution from 5 per cent to 10.7 per cent for the 2013 and 2014 closing exercises. The 2014 Finances Law (‘*Loi de Finances*’) extended this contribution one more year, until December 30, 2016. In practice, this contribution will be thus applicable for the exercises 2014 and 2015 (nevertheless, the deferred tax rate doesn’t include this contribution).

As a consequence, in 2014 France’s tax rate is 38 per cent for companies which have a turnover over EUR 250 million.

b *CVAE*

Since 2010, the French Tax ‘*taxe professionnelle*’ was replaced by a new tax ‘*contribution économique territoriale*’ (CET) composed of the ‘*cotisation foncière des entreprises*’ (CFE) based on the rental value of taxable property, and the ‘*cotisation sur la valeur ajoutée des entreprises*’ (CVAE) corresponding to 1.6 per cent of added-value of the year.

HSBC France has treated the CVAE as income tax, in application of IAS 12. Deferred CVAE contributions are accounted for on the basis of temporary differences between the book value of assets and liabilities and their tax value from a CVAE standpoint.

As mentioned above, the CVAE contribution recorded in 2014 is included in ‘Income Tax’. In 2014, the impact of this accounting position was a classification of a charge of EUR 28.6 million (2013: EUR 41 million) on the ‘Income Tax’ and the recognition of a deferred tax liability of EUR 1.6 million (2013: EUR (1) million).

c *‘Crédit d’impôt Compétitivité Emploi’ (CICE)*

The CICE (‘*Crédit d’Impôt Compétitivité Emploi*’) is a new tax rebate becoming operative on 1 January 2013. Available for every French company, the CICE substantially reduces the tax paid. For 2014, the CICE corresponds to 6 per cent of staff costs excluding salaries over 2.5 times the minimum wage (SMIC).

The CICE is equivalent to a reduction in staff costs and it is considered as a government grant. Thus, the HSBC France group, in application of IAS 20, has chosen to recognise the CICE as a reduction of business expenses.

For the fiscal year 2014, HSBC France group benefited from a EUR 7.2 million tax credit under the CICE (*Crédit d'impôt Compétitivité Emploi*).

Within the framework of the allocation of CICE, HSBC France group backed the profit of the tax credit to a pool of expenses and investments dedicated to the improvement of products and services to customers as well as enhancement of the bank's efficiency. Those expenses are broken down into the following categories:

– Premises: investments in the development and refurbishment of the branch network, energy saving schemes and refurbishment of headquarters;
– Information and technology innovative investments: expenses were dedicated to the development of enhanced commercial softwares, optimisation of payment hubs, continuous improvement of processes and specific needs relating to regulation;
– Training: representing more than three hundred and ten thousand training hours. Staff benefited from numerous courses during the year 2014 with certificated courses, language training courses as well as safety and health at work;
– Recruitment: CICE also allowed to increase significantly the number of recruitments compared to the previous year.

8 Dividends paid in 2014 and 2013

(in millions of euros)	**31.12.2014** *EUR per share*	***Amount***	31.12.2013 *EUR per share*	*Amount*
First interim dividend for current year	–	–	1.78	120
Dividend paid with respect to previous year	–	–	3.56	240
		–		360

Dividends related to 2014

The board of Directors held on 6 February 2015 will propose at the Annual General Meeting, on 23 April 2015, to distribute a dividend of EUR 2.23 per share in respect of the 2014 results.

Dividends related to 2013

On 19 November 2013, the Board of Directors approved an interim dividend of EUR 1.78 per share in respect of the 2013 results. This interim dividend was paid on 21 November 2013.

On 14 February 2014, the Board of Directors also proposed that at the Annual General Meeting, held on 9 May 2014, not to distribute any further dividend in respect of the 2013 results.

9 Earnings and dividends per share

(in euros)	**31.12.2014**	31.12.2013
Basic earnings per share	**2.94**	5.68
Diluted earnings per share	**2.94**	5.68
Dividend per share	**2.23**	1.78

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 198 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 67,437,827 (full year 2013: earnings of EUR 383 million and 67,437,827 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 67,437,827 (full year 2013: 67,437,827 shares).

At 31 December 2014, no potentially dilutive ordinary share had been issued.

10 Segment analysis

The HSBC Group in France includes on the one hand the HSBC France group, and on the other hand the branch of HSBC Bank plc located in Paris, which handles equity derivatives activities

The HSBC Group in France provides a comprehensive range of banking and related financial services to its customers. Products and services offered to customers are organised along the following business lines

- Retail Banking and Wealth Management (including the Insurance and Asset Management business lines) offers a wide range of products and services to meet the retail banking and wealth management requirements of individual and professional clients. The products offered include current accounts and the related payment and financial services, savings products and solutions for wealth accumulation, as well as mortgages and other loans to individuals and professionals.
- In the HSBC Group, life insurance business is accounted for using the embedded value approach which, *inter alia*, provides a risk and valuation framework. The present value of in-force long-term insurance business ('PVIF') represents the discounted value of the shareholders' interest in the profits expected to emerge from the book of in-force policies at that date. The PVIF calculation projects expected cash flows, adjusted for a variety of assumptions to reflect local market conditions and management's judgement of future trends. It essentially relates to economic and non-economic assumptions and anticipation of policyholders' behaviour. Assumptions are subject to uncertainty and can contribute to volatility in the results of the Insurance business (see Note 18 on pages 156 to 161).
- Commercial Banking offers financial services, payment and cash management services, international financing, insurance, treasury operations, as well as capital market and to a further extent, access to investment banking services to its client.
- Global Banking and Markets provides tailored financial solutions to large corporate and institutional clients, to governments and public-sector agencies. The global businesses offer a full range of investment banking and financing services as well as capital markets services in the field of credit, interest rates, foreign exchange, equities, money markets and securities administration.
- The services offered by Private Banking are designed to meet the needs of high-net worth individual customers in the field of banking services, investment advisory and wealth management.

The 'Other' segment mainly includes the fair value variation of HSBC France's own credit spread on issued debt under fair value option.

HSBC France relies on various central administrative and corporate functions whose costs are systematically and consistently allocated to the business lines.

Performance is assessed on the basis of the pre-tax profits of the associated business line, as set out in the internal management reports reviewed by the group's Executive Management.

No geographical information is given, as this information is not relevant for the HSBC group, which mainly operated in France.

10 Segment analysis *(continued)*

Profit/(loss) for the year

(in millions of euros)	31.12.2014 *Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter-segment*	*Total*
Net interest income	**904**	**416**	**301**	**29**	**1**	**(36)**	**1,615**
Net fee income	**307**	**216**	**113**	**21**	**–**	**–**	**657**
Hedging and trading income	**(273)**[1]	**–**	**260**	**4**	**9**	**36**	**36**
Other operating income	**(282)**[2]	**23**	**47**	**(14)**	**(56)**	**–**	**(282)**
Total operating income	**656**	**655**	**721**	**40**	**(46)**	**–**	**2,026**
Loan impairment charges and other credit risk provisions	**(21)**	**(79)**	**(12)**	**(0)**	**(0)**	**–**	**(112)**
Net operating income	**635**	**576**	**709**	**40**	**(46)**	**–**	**1,914**
Total operating expenses	**(778)**	**(395)**	**(437)**	**(40)**	**(12)**	**–**	**(1,662)**
Operating profit	**(143)**	**181**	**272**	**–**	**(58)**	**–**	**252**
Share of profit in associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit before tax	**(143)**	**181**	**272**	**–**	**(58)**	**–**	**252**
Tax expense							**(36)**
Profit for the year – France							**216**
Perimeter differences[3]							**(17)**
Profit for the year – Legal							**199**

1 *Mainly the impact of non-qualifying hedge on mortgage loans. Comments on global results can be found under the section 'Management Report'.*
2 *Mainly the impact of PVIF.*
3 *Mainly HSBC Bank Plc Paris Branch.*

Consolidated financial statements (continued)

10 Segment analysis *(continued)*

(in millions of euros)	31.12.2013 Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Other	Inter-segment	Total
Net interest income	896	415	274	29	4	(35)	1,583
Net fee income	289	228	115	19	1	–	652
Hedging and trading income	58[1]	(1)	366	3	(7)	35	454
Other operating income	(229)	9	15	(8)	(20)	(1)	(234)
Total operating income	1,014	651	770	43	(22)	(1)	2,455
Loan impairment charges and other credit risk provisions	(24)	(73)	–	–	–	–	(97)
Net operating income	990	578	770	43	(22)	(1)	2,358
Total operating expenses	(776)	(386)	(501)	(27)	(11)	1	(1,700)
Operating profit	214	192	269	16	(33)	–	658
Share of profit in associates and joint ventures	–	–	(4)	–	–	–	(4)
Profit before tax	214	192	265	16	(33)	–	654
Tax expense							(202)
Profit for the year – France							452
Perimeter differences[2]							(69)
Profit for the year – Legal							383

1 *Mainly the impact of non-qualifying hedge on mortgage loans. Comments on global results can be found under the section 'Management Report'.*
2 *Mainly HSBC Bank plc Paris Branch.*

10 Segment analysis *(continued)*

Other information about the profit/(loss) for the year on the managed perimeter (HSBC in France)

(in millions of euros)	*Retail Banking and Wealth Manage-ment*	*Com-mercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
31 December 2014							
Net operating income	**635**	**576**	**709**	**40**	**(46)**	**0**	**1,914**
– external	**672**	**501**	**700**	**25**	**(55)**	**26**	**1,869**
– inter-segment	**(37)**	**75**	**9**	**15**	**9**	**(26)**	**45**
Profit before tax includes the following significant non-cash items	**(143)**	**181**	**272**	**–**	**(58)**	**(0)**	**252**
– depreciation, amortisation and impairment	**(0)**	**(0)**	**(0)**	**(0)**	**(53)**	**–**	**(53)**
– loan impairment losses gross of recoveries and other credit risk provisions	**(21)**	**(79)**	**(12)**	**(0)**	**(0)**	**–**	**(112)**
– impairment of financial investments	**–**	**(0)**	**(4)**	**–**	**–**	**–**	**(4)**
31 December 2013							
Net operating income	990	578	770	43	(22)	(1)	2,358
– external	1,024	521	714	23	(7)	29	2,304
– inter-segment	(34)	57	56	20	(15)	(30)	54
Profit before tax includes the following significant non-cash items	214	192	265	16	(33)	–	654
– depreciation, amortisation and impairment	(3)	–	–	–	(53)	–	(56)
– loan impairment losses gross of recoveries and other credit risk provisions	(24)	(73)	–	–	–	–	(97)
– impairment of financial investments	–	–	(1)	–	–	–	(1)

10 Segment analysis *(continued)*

Balance sheet information

(in millions of euros)	*Retail Banking and Wealth Manage-ment*	*Com-mercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
31 December 2014							
Loans and advances to customers (net)[1]	**17,034**	**10,017**	**8,393**	**795**	**–**	**–**	**36,240**
Investment in associates and joint ventures	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Total assets	**44,660**	**9,983**	**156,192**	**577**	**18**	**(10,412)**	**201,018**
Customer accounts[1]	**13,518**	**10,230**	**9,388**	**499**	**–**	**–**	**33,635**
Total liabilities	**44,660**	**9,983**	**156,192**	**577**	**18**	**(10,412)**	**201,018**
31 December 2013							
Loans and advances to customers (net)[1]	15,870	9,427	8,723	706	–	–	34,726
Investment in associates and joint ventures	1	–	–	–	–	–	1
Total assets	42,087	10,442	165,000	725	321	(9,682)	208,893
Customer accounts[1]	13,191	10,103	9,117	472	–	–	32,883
Total liabilities	42,087	10,442	165,000	725	321	(9,682)	208,893

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

11 Analysis of financial assets and liabilities by measurement basis

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in appendices describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities on the balance sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

11 Analysis of financial assets and liabilities by measurement basis *(continued)*

(in millions of euros)	31.12.2014 *Held for trading*	*Designated at fair value*	*Loans and receivables*	*Available-for-sale securities*	*Financial assets and liabilities at amortised cost*	*Derivatives designated as fair value hedging instruments*	*Derivatives designated as cash flow hedging instruments*	*Total*
Financial assets								
Cash and balances at central banks	–	–	–	–	**523**	–	–	**523**
Items in the course of collection from other banks	–	–	–	–	**367**	–	–	**367**
Trading assets	**38,720**	–	–	–	–	–	–	**38,720**
Financial assets designated at fair value	–	**6,156**	–	–	–	–	–	**6,156**
Derivatives	**69,980**	–	–	–	–	**26**	**561**	**70,567**
Loans and advances to banks[1]	–	–	**6,022**	–	–	–	–	**6,022**
Loans and advances to customers[1]	–	–	**36,240**	–	–	–	–	**36,240**
Reverse repurchase agreements- non-trading[1]			**14,796**					**14,796**
Financial investments available for sale	–	–	–	**24,672**	–	–	–	**24,672**
Other assets	–	–	–	–	**283**	–	–	**283**
Accrued income	–	–	–	–	**1,021**	–	–	**1,021**
Total financial assets	**108,700**	**6,156**	**57,058**	**24,672**	**2,194**	**26**	**561**	**199,367**
Total non-financial assets	–	–	–	–	–	–	–	**1,651**
Total assets								**201,018**
Financial Liabilities								
Deposits by banks[1]	–	–	–	–	**7,021**	–	–	**7,021**
Customer accounts[1]	–	–	–	–	**33,635**	–	–	**33,635**
Repurchase agreements- non-trading[1]	–	–	–	–	**15,938**			**15,938**
Items in the course of transmission to other banks	–	–	–	–	**368**	–	–	**368**
Trading liabilities	**29,407**	–	–	–	–	–	–	**29,407**
Financial liabilities designated at fair value	–	**6,911**	–	–	–	–	–	**6,911**
Derivatives	**68,750**	–	–	–	–	**645**	**188**	**69,583**
Debt securities in issue	–	–	–	–	**9,237**	–	–	**9,237**
Insurance liabilities	–	–	–	–	**20,803**	–	–	**20,803**
Other liabilities	–	–	–	–	**989**	–	–	**989**
Subordinated liabilities	–	–	–	–	**276**	–	–	**276**
Accruals	–	–	–	–	**714**	–	–	**714**
Total financial liabilities	**98,157**	**6,911**	–	–	**88,981**	**645**	**188**	**194,882**
Total non-financial liabilities (shareholder's Funds)	–	–	–	–	–	–	–	**6,136**
Total liabilities								**201,018**

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

Consolidated financial statements (continued)

11 Analysis of financial assets and liabilities by measurement basis *(continued)*

(in millions of euros)	Held for trading	Designated at fair value	Loans and receivables	Available-for-sale securities	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Derivatives designated as cash flow hedging instruments	Total
	31.12.2013							
Financial assets								
Cash and balances at central banks	–	–	–	–	5,994	–	–	5,994
Items in the course of collection from other banks	–	–	–	–	607	–	–	607
Trading assets	41,601	–	–	–	–	–	–	41,601
Financial assets designated at fair value	–	6,239	–	–	–	–	–	6,239
Derivatives	59,137	–	–	–	–	15	354	59,506
Loans and advances to banks[1]	–	–	5,707	–	–	–	–	5,707
Loans and advances to customers[1]	–	–	34,528	–	–	–	–	34,528
Reverse repurchase agreements- non-trading[1]	–	–	28,012	–	–	–	–	28,012
Financial investments available for sale	–	–	–	23,690	–	–	–	23,690
Other assets	–	–	–	–	260	–	–	260
Accrued income	–	–	–	–	1,130	–	–	1,130
Total financial assets	100,738	6,239	68,247	23,690	7,991	15	354	207,274
Total non-financial assets	–	–	–	–	–	–	–	1,619
Total assets								208,893
Financial Liabilities								
Deposits by banks[1]	–	–	–	–	4,091	–	–	4,091
Customer accounts[1]	–	–	–	–	32,883	–	–	32,883
Repurchase agreements- non-trading[1]					33,525			33,525
Items in the course of transmission to other banks	–	–	–	–	585	–	–	585
Trading liabilities	37,031	–	–	–	–	–	–	37,031
Financial liabilities designated at fair value	–	8,129	–	–	–	–	–	8,129
Derivatives	55,614	–	–	–	–	460	517	56,591
Debt securities in issue	–	–	–	–	9,017	–	–	9,017
Insurance liabilities	–	–	–	–	19,354	–	–	19,354
Other liabilities	–	–	–	–	857	–	–	857
Subordinated liabilities	–	–	–	–	16	–	–	16
Accruals	–	–	–	–	897	–	–	897
Total financial liabilities	92,645	8,129	–	–	101,225	460	517	202,976
Total non-financial liabilities (shareholder's Funds)								5,917
Total liabilities								208,893

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

12 Trading assets

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties to purchase the financial instruments and are normally derecognised when sold. They are initially measured at fair value, with transaction costs taken to the income statement. Subsequently changes in their fair value are recognised in the income statement in 'Net trading income'.

(in millions of euros)	**31.12.2014**	31.12.2013
Trading assets:		
− which may be repledged or resold by counterparties	**20,763**	26,337
− not subject to repledge or resale by counterparties	**17,957**	15,264
	38,720	41,601

(in millions of euros)	**31.12.2014**	31.12.2013
Treasury and other eligible bills	**639**	2,375
Debt securities	**28,866**	30,274
Equity securities	**–**	–
Loans and advances to banks	**5,869**	6,474
Loans and advances to customers	**3,346**	2,478
	38,720	41,601

Included within the above figures for HSBC France are debt securities issued by banks and other financial institutions of EUR 4,646 million (2013: EUR 5,851 million), of which EUR 2,281 million (2013: 2,538 million) are guaranteed by various governments.

13 Financial assets designated at fair value through profit or loss

At 31 December 2014, financial assets designated at fair value through profit or loss are fully owned by HSBC Assurances Vie (France).

A financial instrument, other than one held for trading, is classified in this category if it meets one or more criteria set out below, and is so designated by management. HSBC France may designate financial instruments at fair value where the designation:

– Eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or recognising the gains and losses on them on different bases. Under this criterion, the main classes of financial instruments designated by the group HSBC France are financial assets under unit-linked insurance and unit-linked investment contracts. Commitments to customers under linked contracts are determined on the basis of the fair value of assets held in the linked funds, changes being recognised in the income statement. If no designation was made for the assets relating to the customer liabilities, they would be classified as available-for-sale and the changes in fair value would be recorded directly in other comprehensive income. These financial instruments are managed on a fair value basis and information is provided to management on that basis. Designation at fair value of the financial assets under investment contracts allows the changes in fair values to be recorded in the income statement and presented in the same line.
– Applies to a group of financial assets that is managed and its performance evaluated on a fair value basis and where information about that group of financial instruments is provided internally on that basis to key management staff; or,
– Relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made, is irrevocable in respect of the financial instruments it affects.

Designated financial assets are recognised at trade date when HSBC France enters into contractual arrangements with counterparties, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured. Gains and losses arising from fair value changes of these assets are recognised in the income statement at the occurring date and, with interest income and expenses and dividend related are recognised in 'Net income from financial instruments designated at fair value'.

Consolidated financial statements (continued)

13 Financial assets designated at fair value through profit or loss *(continued)*

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are also included in 'Net income from financial instruments designated at fair value'. Interest on these derivatives is also included in this line. The amount of change during the period, and cumulatively, in the fair value of designated loans and receivables that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions.

(in millions of euros)	**31.12.2014**	31.12.2013
Financial assets designated at fair value:		
– not subject to repledge or resale by counterparties	**6,156**	6,239
	6,156	6,239
Treasury and other eligible bills	**–**	–
Debt securities	**907**	1,118
Equity securities	**5,247**	5,118
	6,154	6,236
Securities designated at fair value	**–**	–
Loans and advances to banks	**2**	3
	2	3

14 Derivatives

a *Accounting policy*

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices on active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. In the normal course of business, the fair value of a derivative at initial recognition is considered to be the transaction price (*i.e.* the fair value of the consideration given or received). However, in certain circumstances, the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, HSBC France recognises a trading profit or loss on inception of the derivative. If observable market data are not available, the initial increase in fair value indicated by the valuation model, but based on unobservable inputs, is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the inputs become observable, or when the transaction matures or is closed out.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, when the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Derivatives embedded in home purchase savings products (*Plan Epargne Logement/Compte Epargne Logement*) are some of the main embedded derivatives identified by HSBC France, and have therefore been valued using an HSBC France specific model.

All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are to be settled on the same date and on a net basis.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. Where derivatives are designated as hedges, they are classified as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge'); or (iii) hedges of net investments in a foreign operation ('net investment hedge'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

14 Derivatives *(continued)*

Hedge accounting

Following the HSBC Group policy, HSBC France does not use the ‘carve out’ arrangements under the European regulation no. 2086/2004 in relation to the accounting for macro-hedging operations.

As required in IAS 39, HSBC France documents, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Therefore it is also required to measure, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective. Interest on designated qualifying hedges is included in ‘Net interest income’.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the residual period to maturity. Where the adjustment relates to the carrying amount of a hedged equity security, this remains in retained earnings until the disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in other comprehensive income within the ‘Cash flow hedging reserve’. Any gain or loss relating to an ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed.

Hedge effectiveness testing

To qualify for hedge accounting, IAS 39 requires the hedge to be highly effective. At the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis and at least at each closing date.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted for assessing hedge effectiveness will depend on its risk management strategy.

In assessing effectiveness, the changes in the fair value or the cash flows of the hedged item and the hedging instrument must be expected to, or must almost fully, offset each other. For prospective effectiveness, the changes in fair value or cash flows must be expected to offset each other in the range of 90 per cent to 110 per cent. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

Consolidated financial statements (continued)

14 Derivatives *(continued)*

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of any derivative that does not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in 'Trading income', except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in 'Net income from financial instruments designated at fair value'.

The interests on derivatives managed in conjunction with debt securities issued by the group, which are designated at fair value are recognised in 'interest income'. All other gains and losses on these derivatives are reported in 'net income from financial instruments designated at fair value'.

Derivatives that do not qualify for hedge accounting include non-qualifying hedges for which hedge accounting was not, or could not, be applied. The size and direction of changes in fair value of hedges can be volatile from year to year, but do not alter the cash flows expected. Non-qualifying hedges operate as economic hedges of the related assets and liabilities.

b *Use of derivatives*

HSBC France transacts derivatives mainly to create risk management solutions for clients, to manage the portfolio of risks arising from client business and to manage and hedge the HSBC France group's own risks. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives (except for derivatives which are designated as effective hedging instruments as defined in IAS 39) are held for trading. The held-for-trading classification includes two types of derivative instruments: those used in sales and trading activities, and those instruments that are used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second held-for-trading category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described in more detail below.

The HSBC France group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with matching deals being used to achieve this where necessary. When entering into derivative transactions, the HSBC France group employs the same credit risk management procedures to assess and approve potential credit exposures as are used for traditional lending.

The table shows the fair value of derivatives by contract type:

	31.12.2014					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Foreign exchange	**4,547**	**–**	**4,547**	**(4,506)**	**(1)**	**(4,507)**
Interest rate	**136,899**	**587**	**137,486**	**(135,849)**	**(832)**	**(136,681)**
Equities	**195**	**–**	**195**	**(50)**	**–**	**(50)**
Credit derivatives	**–**	**–**	**–**	**(6)**	**–**	**(6)**
Commodity and other	**–**	**–**	**–**	**–**	**–**	**–**
Gross total fair values	**141,641**	**587**	**142,228**	**(140,411)**	**(833)**	**(141,244)**
Netting			**(71,661)**			**71,661**
Net total			**70,567**			**(69,583)**

14 Derivatives *(continued)*

	31.12.2013					
	Assets			*Liabilities*		
(in millions of euros)	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Foreign exchange	3,637	4	3,641	(3,748)	–	(3,748)
Interest rate	122,835	365	123,200	(119,270)	(977)	(120,247)
Equities	101	–	101	(29)	–	(29)
Credit derivatives	(3)	–	(3)	–	–	–
Commodity and other	–	–	–	–	–	–
Gross total fair values	126,570	369	126,939	(123,047)	(977)	(124,024)
Netting			(67,433)			67,433
Net total			59,506			(56,591)

1. Trading derivatives

Most of the HSBC France group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to group customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market-making, positioning and arbitrage activities. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefitting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting or have not been formally designated as hedging instruments. These include derivatives managed in conjunction with financial instruments designated at fair value.

Ineffective hedging derivatives were previously designated as hedges, but no longer meet the criteria for hedge accounting.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net Trading income', except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in 'Net income from financial instruments designated at fair value', together with the gains and losses on the hedged items. Where the derivatives are managed with debt securities in issue, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt. Substantially all of the group's derivatives entered into with the group's undertakings are managed in conjunction with financial liabilities designated at fair value.

14 Derivatives *(continued)*

Notional contract amounts of derivatives held-for-trading purposes by product type

(in millions of euros)	**31.12.2014**	31.12.2013
Foreign Exchange	**153,241**	139,967
Interest rate	**4,135,613**	5,640,972
Equities	**4,103**	8,042
Credit derivatives	**158**	126
Total derivatives	**4,293,115**	5,789,107

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The contract amount of credit derivatives of EUR 158 million (2013: EUR 126 million) listed above consists of protection bought. HSBC France does not sale credit protection.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

(in millions of euros)	**2014**	2013
Unamortised balance at 1 January	**4**	4
Deferral on new transactions	**–**	–
Recognised in the income statement during the period:		
– amortisation	**–**	–
– subsequent to unobservable inputs becoming observable	**–**	–
– maturity or termination, or offsetting derivative	**–**	–
Unamortised balance at 31 December	**4**	4

2. Hedging instruments

HSBC France uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the group to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. These are described under the relevant headings below.

At 31 December 2014 and 2013, HSBC France did not hold derivatives designated as ‘Hedges of a net investment in a foreign operation’.

The table below shows notional contract amount of derivatives held for hedging purposes by product type:

	31.12.2014		31.12.2013	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Exchange rate	**–**	**133**	–	211
Interest rate	**49,199**	**9,269**	60,470	9,246

14 Derivatives *(continued)*

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Fair value hedges

The HSBC France group's fair value hedges principally consist of interest rate swaps that are used to protect against changes due to movements in market interest rates in the fair value of fixed-rate long-term financial instruments of Available for sale (AFS) portfolio and lease operations. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2014, were assets of EUR 26 million and liabilities of EUR 645 million (31 December 2013: assets of EUR 15 million and liabilities of EUR 460 million).

Fair value of derivatives designated as fair value hedges

(in millions of euros)	**31.12.2014**	31.12.2013
On hedging instruments	**(255)**	(41)
On hedged items attributable to the hedged risk	**259**	35

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a profit of EUR 4 million for the year ended 31 December 2014 (a loss of EUR 6 million for the year ended 31 December 2013).

Cash flow hedges

The HSBC France group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions. These are initially recognised directly in equity as gains or losses not recognised in the income statement and are transferred to current period earnings when the forecast cash flows affect net profit or loss.

At 31 December 2014, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 561 million and liabilities of EUR 188 million (at 31 December 2013: assets of EUR 354 million and liabilities of EUR 517 million).

Fair value of derivatives designated as cash flow hedges

	At 31 December 2014		At 31 December 2013	
(in millions of euros)	***Assets***	***Liabilities***	*Assets*	*Liabilities*
Foreign exchange	**–**	**–**	–	–
Interest rate	**561**	**(188)**	354	(517)
	561	**(188)**	354	(517)

14 Derivatives *(continued)*

Schedule of expected cash flows

(in millions of euros)	31.12.2014 3 months or less	 More than 3 months but less than 1 year	 5 years or less but more than 1 year	 More than 5 years
Assets	**19,172**	**11,636**	**3,762**	**270**
Liabilities	**(16,046)**	**(10,758)**	**(7,247)**	**(2,736)**
Net cash inflows/(outflows) exposure	**3,126**	**878**	**(3,485)**	**(2,466)**

(in millions of euros)	31.12.2013 3 months or less	 More than 3 months but less than 1 year	 5 years or less but more than 1 year	 More than 5 years
Assets	24,371	16,227	4,693	1,092
Liabilities	(16,254)	(7,250)	(7,133)	(5,376)
Net cash inflows/(outflows) exposure	8,117	8,977	(2,440)	(4,284)

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	**2014**	2013
At 1 January	**(54)**	78
Amounts recognised directly in equity during the year	**259**	(111)
Amounts removed from equity and included in the income statement for the year	**(90)**	(93)
Deferred taxation	**(60)**	72
At 31 December	**55**	(54)

At 31 December 2014, the amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a gain of EUR 4.5 million (at 31 December 2013: a loss of EUR 10.5 million).

3. Embedded derivatives: home purchase savings

Home purchase savings accounts (CEL) and plans (PEL) are specific financial instruments established by law 65-554 of 10 July 1965. Within these products, customers build up savings during a certain period and use them to obtain loans during a subsequent period. The latter phase depends on, and cannot be separated from, the build-up phase.

To recognise derivatives embedded in PEL/CEL home purchase savings products at fair value, HSBC France has developed a model with the following main characteristics:

(i) the main accounting reference is IAS 39, concerning the calculation of fair value with respect to derivative instruments;

(ii) the derivatives under consideration are borrowing and savings options embedded in contracts in force at the accounts-closing date:

- the model calculates the fair value of exceptional payment and deferred payment options granted to customers (for home purchase savings plans only),
- the model calculates the fair value of options to use acquired borrowing rights;

(iii) the calculation is dependent on customer behaviour, and is carried out separately for each issue of PELs and on a combined basis for CELs.

At 31 December 2014, derivatives embedded in home purchase savings products represented a liability of EUR 4.9 million (at 31 December 2013: a liability of EUR 9.2 million).

15 Financial investments available for sale

Treasury bills, debt securities and equity shares intended to be held on a continuing basis are classified as available-for-sale securities unless designated at fair value (see Note 13) or classified as 'held-to-maturity'. Financial investments are recognised at trade date, when HSBC France enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the transactions are sold or the borrowers repay their obligations.

HSBC France did not hold any 'held-to-maturity' investments in 2014 and 2013.

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value. Changes in fair value are recognised in equity in the 'Available-for-sale reserve' until the securities are either sold or impaired. On the sale of available-for-sale securities, gains or losses held within equity are recycled through the income statement and classified as 'Gains less losses from financial investments'.

Interest income is recognised on such securities using the effective interest method, calculated over the asset's expected life. Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are recognised as an adjustment to the effective interest rate. Dividends are recognised in the income statement when the right to receive payment has been established.

(in millions of euros)	**31.12.2014**	31.12.2013
Financial investments:		
– which may be repledged or resold by counterparties	**1,543**	3,317
– not subject to repledge or resale by counterparties	**23,129**	20,373
	24,672	23,690

	31.12.2014		31.12.2013	
(in millions of euros)	***Book value***	***Fair value***	*Book value*	*Fair value*
Treasury and other eligible bills	**205**	**205**	–	–
– available-for-sale	**205**	**205**	–	–
Debt securities	**24,259**	**24,259**	23,470	23,470
– available-for-sale	**24,259**	**24,259**	23,470	23,470
Equity securities	**208**	**208**	220	220
– available-for-sale	**208**	**208**	220	220
Total financial investments	**24,672**	**24,672**	23,690	23,690

16 Transfer of financial assets

The HSBC France group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial asset concerned:

(i) full derecognition occurs when the HSBC France group transfers its contractual right to receive cash flows from the financial assets and substantially, all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks. In addition, full derecognition occurs where the contractual rights to receive the cash flows of the financial assets are retained but a contractual obligation to pay the cash flows to one or more recipients is assumed;

(ii) partial derecognition occurs when HSBC France sells, or otherwise transfers, financial assets in such a way that some, but not substantially all, of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of HSBC France continuing involvement;

(iii)Derecognition does not occur when the group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but:

– either, retains substantially all of the risks and rewards of ownership of the transferred asset;
– or neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control. In this situation the financial assets are recognised on the balance sheet to the extent of HSBC France continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are (i) debt securities held by counterparties as collateral under repurchase agreements or (ii) equity securities lent under securities lending agreements.

As the substance of these transactions is secured borrowings the asset collateral continues to be recognised in full and the related liability reflecting HSBC France obligation to repurchase the transferred assets for a fixed price at a future date is recognised in deposits from banks or customers as appropriate. As a result of these transactions, HSBC France is unable to use, sell or pledge the transferred assets for the duration of the transaction. HSBC France remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty’s recourse is not limited to the transferred assets.

In a small number of securitisation transactions, HSBC France has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred assets, and has retained control of the transferred assets. Circumstances in which the group has continuing involvement in the transferred assets may include retention of servicing rights over the transferred assets, entering into a derivative transaction with the securitisation vehicle or retaining an interest in the securitisation vehicle. Where HSBC France has continuing involvement it continues to recognise the transferred assets to the extent of its continuing involvement and recognises an associated liability. The net carrying amount of the transferred assets and associated liabilities reflects the rights and obligations that HSBC France has retained.

The following table analyses the carrying amount of financial assets that did not qualify for derecognition during the year and their associated financial liabilities:

	31.12.2014		31.12.2013	
(in millions of euros)	***Carrying amount of assets***	***Carrying amount of associated liabilities***	*Carrying amount of assets*	*Carrying amount of associated liabilities*
Repurchase agreements	**22,200**	**22,200**	29,653	29,653
Securities lending agreements[1]	**2,158**	**2,158**	–	–
Total	**24,358**	**24,358**	29,653	29,653

1 *Since 1 January 2014, HSBC France performs securities lending agreements.*

17 Interests in associates and joint ventures

At 31 December 2014, the HSBC France group consolidated only one entity through equity accounting method, on which it has joint control. It has no significant impact on the consolidated financial statements.

	31.12.2014		
	Principal activity	***Interest in equity***	***Capital***
HCM Holdings Ltd	**Holding**	**51%**	**–**

	31.12.2013		
	Principal activity	*Interest in equity*	*Capital*
HCM Holdings Ltd	Holding	51%	–

Although the HSBC France group owns more than 50 per cent of the equity capital of HCM Holdings Ltd, the agreement with the other shareholder includes restrictions on the rights of HSBC France as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

Summarised aggregate financial information on joint ventures

(Figures from local financial statements: 100 per cent)

(in millions of euros)	**2014**	2013
Current assets	**2**	2
Non-current assets	**–**	–
Current liabilities	**–**	–
Non-current liabilities	**2**	2
Income	**–**	–
Expenses	**–**	–

Consolidated financial statements (continued)

18 Goodwill and intangible assets

(in millions of euros)	**31.12.2014**	31.12.2013
Cost		
Goodwill – net book value	**337**	337
Other intangible assets – net book value	**38**	39
Present value of in force long term assurance business (‘PVIF’)	**334**	493
	709	869

a *Goodwill*

Goodwill arises on business combinations, including the acquisition of subsidiaries, joint ventures or associates when the cost of acquisition exceeds the fair value of HSBC France’s share of the identifiable net assets, liabilities and contingent liabilities acquired. By contrast, if HSBC France’s interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost to acquire, the excess is recognised immediately in the income statement.

Intangible assets are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed annually by comparing the present value of the expected future cash flows from a business with the carrying value of its net assets, including related goodwill. Goodwill is stated at cost less accumulated impairment losses, which are charged to the income statement.

Goodwill on acquisitions of joint ventures or associates is included in ‘Interests in associates and joint ventures’.

At the date of disposal of a business, the associated goodwill is included in HSBC France’s share of net assets in the calculation of the gain or loss on disposal.

(in millions of euros)	**2014**	2013
Cost		
At 1 January	**370**	370
Additions	**–**	–
Disposals	**–**	–
Exchange translation differences	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**370**	370
Accumulated impairment losses		
At 1 January	**(33)**	(33)
Disposals	**–**	–
Impairment losses recognised in profit or loss	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**(33)**	(33)
Net book value at 31 December	**337**	337

18 Goodwill and intangible assets *(continued)*

In accordance with the Accounting Standard IAS 36, HSBC France performs an impairment test at the end of each annual closing and at each evidence of impairment in value. This test is performed by comparing the carrying amount of the cash generating unit (CGU) to its recoverable amount. If the carrying amount of the CGU exceeds its recoverable amount, an impairment loss is recognized in the income statement.

The recoverable amount of the CGU corresponds to the highest amount between the fair value less cost of sale and the value in use. On 31 December 2014, goodwill impairment tests of different CGU were performed on the basis of their value in use. The latter was determined by the so-called discounted cash flow (DCF) approach consisting of valuing a business by updating, at the cost of equity, the cash flows available to shareholders. When it proved relevant, HSBC France used a multi-criteria approach by combining the DCF method and an analog method. This so-called 'comparable' method consists of valuing a CGU, applying different multiples to its business settings.

The choice of financial parameters reflects the long-term holding strategy of the CGU of HSBC France. The discount rate used is based on the cost of capital that the HSBC France group allocates to different CGU. The cost of capital allocated to individual CGU and held to update its future cash flows derives from a valuation model for financial assets, which itself depends on financial and economic variables, including the risk-free rate as well as a premium or discount reflecting the inherent risk of the activity assessed. These financial parameters are defined by management based on current market assessments of economic variables.

These values in use are sensitive to the cash flows projected, and to assumptions regarding the long-term sustainable pattern of cash flows. The performance of goodwill impairment tests necessarily requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used.

At 31 December 2014, the following goodwill is carried by HSBC France. In 2014 and 2013, HSBC France did not record any impairment on its goodwill.

	Goodwill at 31.12.2014	***Discount rate***	***Nominal growth rate beyond initial cash flow projections***	*Goodwill at 31.12.2013*	*Discount rate*	*Nominal growth rate beyond initial cash flow projections*
	In millions of euros	**%**	**%**	*In millions of euros*	%	%
Commercial Banking	**169**	**10**	**2.00**	169	10	2.00
Asset Management	**66**	**8**	**2.00**	66	10	2.00
Retail Banking	**64**	**9**	**2.00**	64	9	2.00
Private Bank	**63**	**9**	**2.00**	63	8	2.00
Total goodwill in the CGUs listed above[1]	**362**	**–**	**2.00**	362	–	2.00

1 *Includes customer/merchant relationships which amount to EUR 9 million for Asset Management and EUR 4 million for Retail Banking. Also includes rights to lease which amount to EUR 12 million for Retail Banking.*

b *Other intangible assets*

Other intangible assets include mortgage servicing rights, computer software, trade names, customer lists, core deposit relationships, credit card customer relationships and merchant or other loan relationships. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Where:

– intangible assets have an indefinite useful life, or are not yet ready for use, they are tested for impairment annually. An intangible asset recognised during the current period is tested before the end of the current year; and

– intangible assets have a finite useful life, except for the present value of in-force long-term insurance business, they are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The amortisation of mortgage servicing rights is included within 'Net fee income'.

Consolidated financial statements (continued)

18 Goodwill and intangible assets *(continued)*

Intangible assets with finite useful lives are amortised, generally on a straight-line basis, over their useful lives as follows:

Trade names	10 years
Mortgage servicing rights	generally between 5 and 12 years
Internally generated software	between 3 and 5 years
Purchased software	between 3 and 5 years
Customer/merchant relationships	between 3 and 10 years
Other	generally 10 years

The analysis of intangible assets movements at 31 December 2014 is as follows:

(in millions of euros)	*Customer/ merchant relation- ships*	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost					
At 1 January 2014	**21**	**18**	**70**	**14**	**123**
Additions	–	–	6	1	7
Disposals	–	–	–	–	–
Amount written off	–	–	–	–	–
Exchange differences	–	–	–	–	–
Other changes	–	–	6	1	7
At 31 December 2014	**21**	**18**	**82**	**16**	**137**
Accumulated impairment losses					
At 1 January 2014	**(9)**	**(18)**	**(57)**	**(1)**	**(85)**
Amortisation charge for the year	–	–	(8)	–	(8)
Impairment charge for the year	–	–	–	–	–
Amount written off	–	–	–	–	–
Disposals	–	–	–	–	–
Impairment losses	–	–	–	–	–
Reversal of impairment losses	–	–	–	–	–
Exchange differences	–	–	–	–	–
Other changes	–	–	(6)	–	(6)
At 31 December 2014	**(9)**	**(18)**	**(71)**	**(1)**	**(99)**
Net book value at 31 December 2014	**12**	**–**	**11**	**15**	**38**

18 Goodwill and intangible assets *(continued)*

(in millions of euros)	*Customer/ merchant relation-ships*	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost					
At 1 January 2013	21	142	66	12	241
Additions	–	–	7	1	8
Disposals	–	–	–	(1)	(1)
Amount written off	–	–	–	–	–
Exchange differences	–	–	–	–	–
Other changes	–	(124)	(3)	2	(125)
At 31 December 2013	21	18	70	14	123
Accumulated impairment losses					
At 1 January 2013	(6)	(142)	(52)	(2)	(202)
Amortisation charge for the year	–	–	(8)	1	(7)
Impairment charge for the year	–	–	–	–	–
Amount written off	–	–	–	–	–
Disposals	–	–	–	–	–
Impairment losses	–	–	–	–	–
Reversal of impairment losses	–	–	–	–	–
Exchange differences	–	–	–	–	–
Other changes	(3)	124	3	–	124
At 31 December 2013	(9)	(18)	(57)	(1)	(85)
Net book value at 31 December 2013	12	–	13	13	38

c *Present value of in-force insurance business*

The HSBC France's life insurance business is accounted for using the embedded value approach which, *inter alia*, provides a comprehensive risk and valuation framework. The PVIF 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.

18 Goodwill and intangible assets *(continued)*

Movement in PVIF

(in millions of euros)	2014	2013
At 1 January	**493**	458
Addition from current year new business	**53**	59
Movement from in-force business (including investment return variances and changes in investment assumptions)	**(209)**	(21)
Exchange differences and other movements	**(3)**	(3)
At 31 December	**334**	493

Key assumptions modification impacts overPVIF[1]

	2014	2013
Average weighted risk free rate	**1.21%**	2.38%
Average weighted risk discount rate	**1.73%**	4.69%
Expenses inflation	**2.00%**	2.00%

1 *For 2014, market value future profits' discounted rate used for the PVIF is of 1.73%, to which a risk margin of EUR 49 million is added. In 2013, a global rate of 4.6% was used. This rate equals to a market value discounted rate of 3.08% including a risk margin of EUR 43 million.*

Risk margin over discount rate profits are (in millions of euros)[1].

	2014	2013
Operational risk	**7**	7
Model risk	**15**	15
Volatility risk	**27**	21

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

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.

	PVIF at 31.12.2014	PVIF at 31.12.2013
+ 100 basis points shift in risk-free rate	**111**	(4.6)
− 100 basis points shift in risk-free rate[1]	**(389)**	(53.3)
+ 100 basis points shift in risk-discount rate	**(19.5)**	(27.9)
− 100 basis points shift in risk-discount rate	**22.7**	32.5

1 *Where a –100 basis point parallel shift in the risk-free rate would result in a negative rate, the effect on PVIF has been calculated using a minimum rate of 0%.*

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.

18 Goodwill and intangible assets *(continued)*

Sensitivity of the PVIF to non-economic assumptions[1]

PVIF is also based on non-economic assumptions such as mortality, morbidity, lapse rates and expense rates. The table below shows the benefits' sensitivity regarding these assumptions.

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. The table below shows the sensitivity of total equity at 31 December 2014 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 after tax.

	Effect on total equity at 31.12.2014[1]	Effect on total equity at 31.12.2013[1]
10% increase in mortality and/or morbidity rates	**(12.0)**	(13.2)
10% decrease in mortality and/or morbidity rates	**13.0**	13.7
10% increase in lapse rates	**(28.0)**	(27.6)
10% decrease in lapse rates	**31.0**	30.5
10% increase in expense rates	**(25.0)**	(23.7)
10% decrease in expense rates	**24.0**	23.7

1 *Impacts on profits are shown after tax in 2014 and 2013.*

Increased expense is entirely borne by the insurer and so reduces profits.

The impact of redemption rates variations is mainly explained by savings activity. For example, an increase of redemptions generates a decrease of the contract management, and therefore, a negative impact on the insurer's profits.

19 Property, plant and equipment

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRS ('deemed cost'), less any impairment losses and depreciation calculated to write off the assets as follows:

– land is not depreciated;
– acquisition-related expenses on buildings are expensed in the year in which they occur, as are preliminary costs;
– depreciation of buildings is calculated on a straight-line basis over their estimated useful lives, which are generally between 25 and 75 years.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC France is the lessor) are stated at cost less any impairment losses and depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 and 10 years. HSBC France holds certain properties as investments to earn rentals or for capital appreciation, or both. Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques.

Property, plant and equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Consolidated financial statements (continued)

19 Property, plant and equipment *(continued)*

a *Property, plant and equipment*

(in millions of euros)	*Freehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2014	**423**	**583**	**1,006**
Additions at cost	**108**	**33**	**141**
Fair value adjustments	**16**	**–**	**16**
Disposals	**(2)**	**(1)**	**(3)**
Exchange and other differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**3**	**(9)**	**(6)**
At 31 December 2014	**548**	**606**	**1,154**
Accumulated depreciation			
At 1 January 2014	**(25)**	**(387)**	**(412)**
Depreciation charge for the year	**(2)**	**(43)**	**(45)**
Disposals		**1**	**1**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**8**	**8**
At 31 December 2014	**(27)**	**(421)**	**(448)**
Net book value at 31 December 2014	**521**	**185**	**706**

19 Property, plant and equipment *(continued)*

(in millions of euros)	*Freehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2013	104	422	526
Additions at cost	2	27	29
Fair value adjustments	6	–	6
Disposals	–	(1)	(1)
Exchange and other differences	–	–	–
Changes in scope of consolidation and other changes	311	135	446
At 31 December 2013	423	583	1,006
Accumulated depreciation			
At 1 January 2013	(24)	(206)	(230)
Depreciation charge for the year	(1)	(46)	(47)
Disposals		1	(1)
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes	–	(136)	(136)
At 31 December 2013	(25)	(387)	(412)
Net book value at 31 December 2013	398	196	594

b *Investment properties*

The investment property is owned by HSBC Assurances Vie (France)[1].

(in millions of euros)	**2014**	2013
Fair value		
At 1 January	**319**	313
Addition	**105**	–
Fair value adjustments	**13**	6
Exchange and other changes	**–**	–
At 31 December	**437**	319

1 *Included in 'freehold land and buildings'.*

Investment property is valued on an open market value basis as at 31 December each year by independent professional valuers who have recent experience in similar location and type of properties.

Consolidated financial statements (continued)

20 Investments

a *Subsidiaries of HSBC France*

Consolidated companies	*Country of incorporation or registration*	*Consolidation method**	*Main line of business*	HSBC France group interest **%** **2014**	% 2013
Retail and Commercial Banking					
COPARI	France	FC	Holding company	**100.0**	100.0
Financière d'Uzès[1]	France	EM	Financial company	**–**	34.0
HSBC Factoring (France) (ex-Elysées Factor)	France	FC	Financial company	**100.0**	100.0
SAPC Ufipro Recouvrement	France	FC	Bank	**99.9**	99.9
SARL Neuilly Valeurs	France	FC	Investment company	**100.0**	100.0
SCI Hervet Mathurins	France	FC	Holding company	**100.0**	100.0
Union pour la Gestion et les Transactions (UGT)	France	FC	Service company	**100.0**	100.0
Global Banking and Markets					
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0**	85.0
CCF Charterhouse GmbH	Germany	FC	Service company	**100.0**	100.0
CCF Charterhouse GmbH & Co Asset Leasing KG	Germany	FC	Financial company	**100.0**	100.0
DEM 5	France	FC	Financial company	**100.0**	100.0
DEM 9	France	FC	Financial company	**100.0**	100.0
DEM 10	France	FC	Financial company	**100.0**	100.0
DEM 22	France	FC	Financial company	**100.0**	100.0
DEM 23	France	FC	Financial company	**100.0**	100.0
DEM 24	France	FC	Financial company	**100.0**	100.0
DEM 25	France	FC	Financial company	**100.0**	100.0
DEMPAR 1	France	FC	Financial company	**100.0**	100.0
DEMPAR 4	France	FC	Financial company	**100.0**	100.0
Elysées GmbH	Germany	FC	Financial company	**100.0**	100.0
FDM 1	France	FC	Financial company	**100.0**	100.0
FDM 2	France	FC	Financial company	**100.0**	100.0
FDM 3	France	FC	Financial company	**100.0**	100.0
FDM 4	France	FC	Financial company	**100.0**	100.0
FDM 5	France	FC	Financial company	**100.0**	100.0
FDM 6	France	FC	Financial company	**100.0**	100.0
FDM 7	France	FC	Financial company	**100.0**	100.0
FDM 8	France	FC	Financial company	**100.0**	100.0
FDM 9	France	FC	Financial company	**100.0**	100.0
FDM 10	France	FC	Financial company	**100.0**	100.0
Finanpar 2	France	FC	Financial company	**100.0**	100.0
Finanpar 5	France	FC	Financial company	**100.0**	100.0
Finanpar 7	France	FC	Financial company	**100.0**	100.0
Foncière Elysées	France	FC	Holding company	**100.0**	100.0
HSBC Leasing (Belgium)	Belgium	FC	Financial company	**100.0**	100.0
HSBC Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Middle East Leasing Partnership	Dubai	FC	Financial company	**85.0**	85.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Disposal on 10 February 2014.*

20 Investments *(continued)*

Consolidated companies	*Country of incorporation or registration*	*Consolidation method**	*Main line of business*	HSBC France group interest **%** **2014**	% 2013
HSBC Real Estate Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC REIM (France)	France	FC	Service company	**99.8**	100.0
HSBC Services (France) (ex-HSBC Securities (France))	France	FC	Financial company	**100.0**	100.0
HSBC SFH (France) (ex-HSBC Covered Bonds (France)) (ex-Hervet Participations)	France	FC	Financial company	**100.0**	100.0
Euro Secured Notes Issuer (ESNI)/OT de Place[1]	France	FC	Financial company	**25.0**	–
SAF Baiyun	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang er	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang liu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang qi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang san	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi'er	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi liu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi wu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang yi	France	FC	Financial company	**100.0**	100.0
SAF Guangzhou	France	FC	Financial company	**100.0**	100.0
SAF Leasing Holding (France)	France	FC	Financial company	**100.0**	100.0
SAF Palissandre	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang er	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang liu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang qi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang san	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi ba (ex-DEM 20)	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi er	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi jiu (ex-DEM 21)	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi liu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi qi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi wu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang yi	France	FC	Financial company	**100.0**	100.0
Société Financière et Mobilière (SFM)	France	FC	Financial company	**100.0**	100.0
Société Immobilière Malesherbes-Anjou	France	FC	Holding company	**100.0**	100.0
Sopingest	France	FC	Financial company	**100.0**	100.0
Thasosfin	France	FC	Financial company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Acquisition on 2 April 2014.*

Consolidated financial statements (continued)

20 Investments *(continued)*

Consolidated companies	*Country of incorporation or registration*	*Consolidation method**	*Main line of business*	HSBC France group interest **% 2013**	% 2012
Asset Management					
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0**	100.0
HCM Holdings Ltd	United Kingdom	Joint control	Financial company	**51.0**	51.0
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0
Service Epargne Entreprise	France	EM	Service company	**18.5**	18.5
HSBC Global Asset Management (France) (ex-HSBC Investments (France))	France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management (Switzerland) AG	Switzerland	EM	Financial company	**50.0**	50.0
Sinopia TRS1	France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes	France	FC	Financial company	**60.0**	60.0
HSBC Trinkaus Gesellschaft für KMI oHG	Germany	FC	Financial company	**90.0**	90.0
Insurance					
HSBC Assurances Vie (France)	France	FC	Insurance company	**100.0**	100.0
SCI HSBC Assurances Immo[2]	France	FC	Financial company	**100.0**	100.0
ERISA Actions grandes valeurs	France	FC	Financial company	**100.0**	100.0
OPCVM3 - HSBC Objectif 3-6-8 FCP3DEC	France	FC	Financial company	**73.4**	72.8
OPCVM6 - Elysées Ecrins FCP	France	FC	Financial company	**99.9**	99.9
OPCVM8 - Erisa Diversifié N2 FCP	France	FC	Financial company	**100.0**	100.0
OPCVM9 - Erisa Opportunités FCP	France	FC	Financial company	**100.0**	100.0
HSBC Destination 3-6-8 FCP3DEC	France	FC	Financial company	**85.5**	85.1
HSBC US Equity CL.H-USD C.3DEC	France	FC	Financial company	**85.9**	54.7
HSBC Horizon 2013-2015 FCP	France	FC	Financial company	**55.0**	52.2
HSBC Horizon 2016-2018 FCP	France	FC	Financial company	**58.4**	56.8
HSBC Horizon 2034-2036 A FCP3DEC	France	FC	Financial company	**93.0**	92.4
HSBC Multimanager DEF.FCP3DEC	France	FC	Financial company	**75.5**	72.6
HSBC Multimanager EXPA.FCP3DEC	France	FC	Financial company	**83.1**	80.1
HSBC Multimanager HARM.FCP3DEC	France	FC	Financial company	**74.1**	72.5
HSBC Multimanager OFF.FCP3DEC	France	FC	Financial company	**60.7**	62.3
HSBC Oblig. Monde C FCP[1]	France	FC	Financial company	**51.9**	51.9
HSBC Japane.eq. CL.H EUR C.3DEC	France	FC	Financial company	**64.5**	60.8
HSBC Multialp. Japan eq.A C3DEC	France	FC	Financial company	**59.1**	50.9
HSBC PTF WLD Select.4 A C.3DEC	France	FC	Financial company	**56.1**	52.0
Others					
Charterhouse Management Services Limited (CMSL)	United Kingdom	FC	Investment company	**100.0**	100.0
Charterhouse Administrators Ltd	United Kingdom	FC	Investment company	**100.0**	100.0
Enership[3]	France	FC	Investment company	**–**	100.0
Excofina[4]	France	FC	Investment company	**–**	100.0
FinanCités[2]	France	EM	Capital risk company	**15.4**	15.4
Keyser Ullman Ltd.	United Kingdom	FC	Investment company	**100.0**	100.0
Société Française et Suisse (SFS)	France	FC	Investment company	**100.0**	100.0
Valeurs Mobilières Elysées (ex-Nobel)	France	FC	Investment company	**100.0**	100.0

* *FC: Full Consolidation – EM: Equity Method.*
1 *Name change in 2014.*
2 *Liquidation.*
3 *Disposal.*

20 Investments *(continued)*

New Entries in Perimeter

Euro Secured Notes Issuer (ESNI) / OT de Place.

Deconsolidation:

HSBC OBLIG.MONDE C FCP (51.9 per cent).
FinanCités (15.4 per cent).

Disposal/liquidation:

Financière d'Uzès has been disposed of.
Enership has been liquidated.

21 Related information on foreign subsidiaries country by country

Related information on foreign subsidiaries country by country required by the directive 2013/36/UE ('CRD IV') have been transposed in article L. 511-45 of the French Financial and Monetary Code.

Article L. 511-16-2,1 of the French Financial and Monetary Code provides that undertakings are not required to disclose the information if these elements are already published by their parent company established within another European member and subject to a similar requirement.

This information will be available on HSBC's website (www. Hsbc.com) by 1 July 2015. Thus, HSBC France is exempted from publishing such information on a single basis.

22 Financial liabilities designated at fair value

A financial instrument, other than one held for trading, is classified in this category if it meets one or more criteria set out below, and is so designated by management. HSBC France may designate financial instruments at fair value where the designation:

– Eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial liabilities or recognising the gains and losses on them on different bases. Under this criterion, the main classes of financial instruments designated by the group are:

- **Long-term debt issues**

  The interest payable on certain fixed rate long-term debt securities issued has been matched with the interest on 'receive fixed/pay variable' interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will also be recognised in the income statement.

- **Financial liabilities under unit-linked insurance and unit-linked investment contracts**

  Designation at fair value of the financial liabilities under investment contracts allows the changes in fair values to be recorded in the income statement and presented in the same line.

– Applies to a group of financial liabilities whose management and performance are evaluated on a fair value basis and where information about that group of financial instruments is provided internally on that basis to key management staff; or,

– Relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made, is irrevocable regarding financial instruments it affects. Designated financial liabilities are recognised at trade date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when extinguished. They are initially recognised at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured and, except for interest payable on debt securities in issue included in 'Net interest margin' by HSBC France designated at fair value, gains and losses from changes therein are recognised in 'Net income from financial instruments designated at fair value'.

Consolidated financial statements (continued)

22 Financial liabilities designated at fair value *(continued)*

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial liabilities are also included in 'Net income from financial instruments designated at fair value'. Interest on these derivatives is also included in this line, except for interest on derivatives managed with debt securities in issue by HSBC France designated at fair value, which is included in net interest income. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions.

(in millions of euros)	**31.12.2014**	31.12.2013
Debt to customers[1]	**97**	208
Liabilities to customers under investment contracts[1]	**19**	19
Debt securities in issue	**6,780**	7,887
Subordinated liabilities	**15**	15
	6,911	8,129

1 *At 31 December 2013, the liabilities to customers under investment contracts were disclosed aggregated under 'debts to customers'.*

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2014 was EUR 531 million for the HSBC France group (at 31 December 2013: EUR 164 million).

At 31 December 2014, the accumulated amount of the change in fair value attributable to changes in credit risk for the HSBC France group was EUR 123 million (at 31 December 2013: EUR 62 million).

In 2014, the amount reported in the income statement in respect of HSBC France's own credit spread was a loss of EUR (61) million (2013: a loss of EUR (3) million)

23 Other liabilities

(in millions of euros)	**31.12.2014**	31.12.2013
Amounts due to investors in funds consolidated by the group	**406**	450
Share-based payments	**22**	28
Other insurance liabilities	**2**	2
Other liabilities	**559**	516
	989	996

24 Deferred taxation

	31.12.2014			31.12.2013		
(in millions of euros)	***Deferred tax asset***	***Deferred tax liability***	***Total***	*Deferred tax asset*	*Deferred tax liability*	*Total*
Temporary differences:						
– retirement benefits	**42**	**–**	**(42)**	39	–	(39)
– assets leased	**94**	**–**	**(94)**	89	2	(87)
– revaluation of property	**(12)**	**–**	**12**	(11)	–	11
– other temporary differences	**12**	**3**	**(9)**	(56)	–	56
– deferred losses carried forward	**–**	**–**	**–**	–	–	–
	136	**3**	**(133)**	61	2	(59)

The main amounts of deferred tax related to items that are charged directly to equity are detailed as follows:

(in millions of euros)	**31.12.2014**	31.12.2013
Cash flow hedge	**30**	(29)
Available-for-sale reserve	**84**	67
Actuarial losses	**(20)**	(10)

25 Provisions for liabilities and charges

HSBC France recognises a provision when the following three elements are gathered:

– Existence of a present obligation occurring from a past event;

– It is probable that an outflow of resources will be required to settle the obligation;

– A reliable estimate of the amount can be made.

(in millions of euros)	**2014**	2013
At 1 January	**163**	97
Additional provisions/increase in provisions	**39**	107
Provisions utilised	**(37)**	(22)
Amounts reversed	**(21)**	(21)
Acquisition/disposal of subsidiaries/businesses	**–**	–
Exchange differences and other movements	**3**	2
At 31 December	**147**	163

26 Sale and repurchase

Repurchase agreements and reverse repurchase agreements are classified as held at amortised cost or held for trading as appropriate.

Repurchase agreements and reverse repurchase agreements classified as amortised cost, or non-trading, are presented as separate lines in the balance sheet.

Repurchase agreements and reverse repurchase agreements classified as held for trading are included within 'Trading liabilities' and 'Trading assets', respectively sheet.

This separate presentation was adopted with effect from 1 January 2014 and comparatives are re-presented accordingly. Previously, non-trading reverse repurchase agreements were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits by banks' and 'Customer accounts'.

The extent to which reverse repurchase agreements and repurchase agreements represent loans to/from customers and banks is set out in the following table.

(in millions of euros)	**31.12.2014**	31.12.2013
Assets		
Banks	**9,935**	17,379
Customers	**4,861**	10,663
Total	**14,796**	28,012
Liabilities		
Banks	**13,926**	18,498
Customers	**2,012**	15,027
Total	**15,938**	33,525

27 Liabilities under insurance contracts

(in millions of euros)	*Gross*	*Reinsurer's share*	*Net*
2014			
Non-linked life insurance contracts			
At 1 January	**115**	**(3)**	**112**
– Benefits paid	**(20)**	**1**	**(19)**
– Increase in liabilities to policyholders	**20**	**(1)**	**19**
– Exchange differences and other movements	**4**	**–**	**4**
At 31 December	**119**	**(3)**	**116**
Investment contracts with discretionary participation features			
At 1 January	**19,189**	**–**	**19,189**
– Benefits paid	**–**	**–**	**–**
– Increase in liabilities to policyholders	**2,397**	**–**	**2,397**
– Exchange differences and other movements	**(950)**	**–**	**(950)**
At 31 December	**20,636**	**–**	**20,636**
Linked life insurance contracts			
At 1 January	**51**	**–**	**51**
– Benefits paid	**(4)**	**–**	**(4)**
– Increase in liabilities to policyholders	**3**	**–**	**3**
– Exchange differences and other movements	**(2)**	**–**	**(2)**
At 31 December	**48**	**–**	**48**
Total liabilities to policyholders	**20,803**	**(3)**	**20,800**

27 Liabilities under insurance contracts *(continued)*

(in millions of euros)	*Gross*	*Reinsurer's share*	*Net*
2013			
Non-linked life insurance contracts			
At 1 January	110	–	110
– Benefits paid	(17)	(1)	(18)
– Increase in liabilities to policyholders	22	(2)	20
– Exchange differences and other movements	–	–	–
At 31 December	115	(3)	112
Investment contracts with discretionary participation features			
At 1 January	18,479	–	18,479
– Benefits paid	(1,734)	–	(1,734)
– Increase in liabilities to policyholders	2,765	–	2,765
– Exchange differences and other movements	(322)	–	(322)
At 31 December	19,188	–	19,188
Linked life insurance contracts			
At 1 January	50	–	50
– Benefits paid	(3)	–	(3)
– Increase in liabilities to policyholders	3	–	3
– Exchange differences and other movements	1	–	1
At 31 December	51	–	51
Total liabilities to policyholders	19,354	(3)	19,351

The raise of insurance liabilities corresponds to all the events that have generated an increase of duties towards policyholders during the financial year.

The key factors contributing to the movement in liabilities to policyholders include death claims, surrenders, lapses, liabilities to policyholders created at the initial inception of the policies, the declaration of bonuses and other amounts attributable to policyholders.

28 Debt securities and subordinated liabilities

Debt securities in issue and subordinated liabilities are initially measured at fair value, which is the consideration received net of directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method to amortise the difference between proceeds net of directly attributable transaction costs and the redemption amount over the expected life of the debt, unless the securities are designated at fair value (see Note 13).

	Book value	
(in millions of euros)	**31.12.2014**	31.12.2013
Subordinated liabilities:		
– at amortised cost	**276**	16
– designated at fair value	**15**	15
	291	31

Subordinated borrowings issued by HSBC France:

		Book value	
(in millions of euros)		**31.12.2014**	31.12.2013
EUR260 million[1]	Floating rate notes maturing 2029	**260**	–
EUR15 million	Floating rate notes maturing 2015	**15**	15
EUR16 million	Undated subordinated variable rate notes	**16**	16
		291	31

1 *HSBC France achieved in December 2014 a Tier 2 capital instruments' issuance for EUR 260 million with a 15 years maturity. This subordinated loan, eligible as regulatory Tier 2 under CRD IV rules, has been integrally subscribed by HSBC Holdings Plc.*

29 Trading liabilities

Trading liabilities are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They are recognised on trade date, when HSBC France enters into contractual arrangements with counterparties and are normally derecognised when extinguished.

These trading liabilities are initially measured at fair value. All gains and losses from a previous fair value variation of these assets and liabilities as well as for income and interest expense and related dividends, are recognised in the income statement in 'gains or losses on financial instruments'.

(in millions of euros)	**31.12.2014**	31.12.2013
Other liabilities – net short positions	**13,974**	21,125
Deposits by banks	**8,770**	9,192
Customer accounts	**4,349**	4,790
Other debt securities in issue	**2,314**	1,924
Total	**29,407**	37,031

In 2014, the group recognised a loss of EUR (33) million with respect to HSBC France's own credit spread in the debt securities in issue (2013: a loss of EUR (8.3) million).

30 Fair value of financial instruments carried at fair value

a *Accounting policy*

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an standard transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price.

However, sometimes the fair value will be based on other observable current market transactions for the same instrument, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, HSBC France recognises a trading gain or loss (Day 1), being the difference between the transaction price and the fair value. When unobservable parameters have a significant impact over the valuation of financial instruments, the initial gap between fair value issued from the measurement model and the transaction price (Day 1) is not immediately recognized in the income statement but accounted for over the lifespan of the transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC France manages a group of financial assets and liabilities according to its net market or credit risk exposure, HSBC measures the fair value of the group of financial instruments on a net basis but discloses the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria as described in Note 37.

b *Critical accounting estimates and judgements related to financial instrument valuation*

The best evidence of fair value is a quoted price on an actively traded principal market. In the event that the market for a financial instrument is not active, and the valuation technique uses only observable market data, the reliability of the fair value measurement is high. However, when valuation techniques include one or more significant unobservable market inputs, they rely to a greater extent on management judgement. In absence of observable valuation inputs, due to a lack of or a reduced volume of similar transactions, management judgement is required to assess the price at which an arm's length transaction would occur under normal business conditions, in which case management may rely on historical prices for that particular financial instrument or on recent prices for similar instruments.

30 Fair value of financial instruments carried at fair value *(continued)*

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- Selecting an appropriate discount rate for the instrument: management Judgement required to assess what a market participant would regard as the appropriate premium for an instrument over the appropriate risk-free rate;
- Judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity on the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

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c *Control framework*

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by an independent function of the risk taker. For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. On inactive markets, direct observation of traded prices may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value. Greater weight will be given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- The extent to which prices may be expected to represent genuine traded or tradeable prices;
- The degree of similarity between financial instruments;
- The degree of consistency between different sources;
- The process followed by the pricing provider to derive the data;
- The elapsed time between the date to which the market data relates and the balance sheet date;
- The manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of the logic within valuation models, the inputs to those models, any adjustments required outside the valuation models and, where possible, model outputs.

Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

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d *Determination of fair value of financial instruments carried at fair value*

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, instruments designated at fair value through profit or loss, derivatives, and financial investments classified as available-for-sale (including treasury and other eligible bills, debt securities, and equity securities).

The reliability of the fair value measurement for financial instruments reported on the consolidated balance sheet at fair value is assessed according to how the fair values have been determined.

30 Fair value of financial instruments carried at fair value *(continued)*

Fair values are determined according to the following hierarchy

a *Level 1 – Quoted market price*: financial instruments with quoted prices for identical instruments on active markets.

b *Level 2 – Valuation technique using observable inputs*: financial instruments with quoted prices for similar instruments on active markets or quoted prices for identical or similar instruments on inactive markets or financial instruments valued using models where all significant inputs are observable.

c *Level 3 – Valuation technique with significant non-observable inputs*: financial instruments valued using models where one or more significant inputs are not observable.

The best evidence of fair value is a quoted price on an actively traded market. The fair values of financial instruments that are quoted on active markets are based on bid prices for assets held and offer prices for liabilities issued. When a financial instrument has a quoted price on an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are made. In the event that the market for a financial instrument is not active, a valuation technique is used.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of its trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which he would be willing to sell. On inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices necessary to measure the fair value of the instrument, requires additional work during the valuation process.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations, including interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. For collateralised counterparties and in significant major currencies, the group uses a discounting curve that reflects the overnight interest rate ('OIS discounting').

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value measurement derived is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or greater than 5 per cent of the instrument's carrying value is driven by unobservable inputs. 'Not observable' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur, but it generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (consensus pricing data may, for example, be used).

In certain circumstances, primarily where debt is hedged with interest rate derivatives, the group uses fair value to measure the carrying value of its own debt in issue. Where available, the fair value will be based upon quoted prices on an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices on an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices on an active market for similar instruments. The fair value of these instruments therefore includes the effect of applying the credit spread which is appropriate to the group's liabilities. For all issued debt securities, discounted cash flow modelling is utilised to isolate that element of change in fair value that may be attributed to the group's credit spread movements rather than movements in other market factors, such as benchmark interest rates or foreign exchange rates. Then, using discounted cash flow, each security is valued using a BOR-based discount curve. The difference in the valuations is attributable to the group's own credit spread. This methodology is applied consistently across all securities.

Issued structured notes and certain other hybrid instrument liabilities are included within trading liabilities, and marked at fair value. The credit spread applied to these instruments is derived from the spreads at which the group issues structured notes. These market spreads are significantly tighter than credit spreads observed on vanilla debt or credit default swap markets.

Gains and losses arising from changes in the credit spread of liabilities issued by the group are recognized in the income statement over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

30 Fair value of financial instruments carried at fair value *(continued)*

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

(in millions of euros)	***Valuation techniques*** Level 1 - quoted market price	Level 2 - using observable inputs	Level 3 - with significant non-observable inputs	***Third Party Total***	***Amounts with HSBC entities***	***Total***
At 31 December 2014						
Assets						
Trading assets	**29,406**	**8,688**	**–**	**38,094**	**626**	**38,720**
Financial assets designated at fair value	**5,567**	**136**	**–**	**5,703**	**453**	**6,156**
Derivatives	**9**	**50,324**	**283**	**50,616**	**19,951**	**70,567**
Financial investments available-for-sale	**24,174**	**78**	**74**	**24,326**	**346**	**24,672**
Liabilities						
Trading liabilities	**13,645**	**14,535**	**–**	**28,180**	**1,227**	**29,407**
Financial liabilities designated at fair value	**5**	**6,906**	**–**	**6,911**	**–**	**6,911**
Derivatives	**3**	**49,998**	**41**	**50,042**	**19,541**	**69,583**

(in millions of euros)	*Valuation techniques* Level 1 - quoted market price	Level 2 - using observable inputs	Level 3 - with significant non-observable inputs	*Third Party Total*	*Amounts with HSBC entities*	*Total*
At 31 December 2013						
Assets						
Trading assets	38,191	1,615	–	39,806	1,795	41,601
Financial assets designated at fair value	5,424	142	–	5,566	673	6,239
Derivatives	11	42,533	102	42,646	16,860	59,506
Financial investments available-for-sale	23,535	56	99	23,690	–	23,690
Liabilities						
Trading liabilities	29,935	5,852	–	35,787	1,244	37,031
Financial liabilities designated at fair value	208	7,921	–	8,129	–	8,129
Derivatives	12	39,550	38	39,599	16,992	56,591

Consolidated financial statements (continued)

30 Fair value of financial instruments carried at fair value *(continued)*

Transfers between Level 1 and Level 2 fair values.

(in millions of euros)	Assets: *Available for sale*	Assets: *Held for trading*	Assets: *Designated at fair value through profit or loss*	Assets: *Derivatives*	Liabilities: *Held for trading*	Liabilities: *Designated at fair value through profit or loss*	Liabilities: *Derivatives*
At 31 December 2014							
Transfers from Level 1 to Level 2[1]	–	7,153	–	–	8,617	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	–	–
At 31 December 2013							
Transfers from Level 1 to Level 2	–	1,415	–	–	1,601	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–	–	–

1 *Cash collateral is now considered as Level 2.*

f *Fair value adjustments*

Fair value adjustments are adopted when HSBC France considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. HSBC France classifies fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to GB&M.

Risk-related adjustments

Bid-offer

The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit valuation adjustment (CVA)

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the group may not receive the full market value of the transactions (see below).

Debit valuation adjustment (DVA)

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the group HSBC France may default, or may not pay full market value of the transactions (see below).

30 Fair value of financial instruments carried at fair value *(continued)*

Model-related adjustments

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted by HSBC France when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Credit valuation adjustment methodology (CVA)

HSBC France calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of HSBC France, to the group's expected positive exposure to the counterparty and multiplying the result by the expected loss in the event of default. Conversely, HSBC France calculates the DVA by applying the PD of HSBC France, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the group and multiplying by the expected loss in the event of default. Both calculations are performed over the life of the potential exposure.

The derivation of a proxy takes into account the range of market practice, relevant data in this context, including CDS index and rating transition data, and CSA characteristics determined for each counterparty.

For most products, the group uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates the range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology takes into account different contractual characteristics reducing credit risk such as counterparty netting agreements and collateral agreements with the counterparty. A standard loss given default assumption of 60 per cent is generally adopted for developed market exposures, and 75 per cent for emerging market exposures. Alternative loss given default assumptions may be adopted where both the nature of the exposure and the available data support this.

For certain types of exotic derivatives where the products are not currently supported by the simulation, HSBC France adopts alternative methodologies. These may involve mapping to the results for similar products from the simulation tool or where such a mapping approach is not appropriate, a simplified methodology is used, generally following the same principles as the simulation methodology. The calculation is applied at a trade level, with more limited recognition of credit mitigants such as netting or collateral agreements than used in the simulation methodology.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises where the underlying value of the derivative prior to any CVA is positively correlated to the probability of default of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation.

During the year, HSBC France refined the methodologies used to calculate the CVA and DVA to more accurately reflect the impact of ratings downgrade triggers on credit mitigation. HSBC France reviews and refines the CVA and DVA methodologies on an ongoing basis.

Funding Fair Value Adjustment

At 31 December 2014, HSBC France has accounted for a new retained earnings in order to take into account the real funding cost of the bank in the valorisation of the non-collateralised (or partially collateralised) derivatives. This first application is translated by the recording of an expense of EUR 21 million.

30 Fair value of financial instruments carried at fair value *(continued)*

g *Focus Level 3*

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

	Assets				*Liabilities*		
(in millions of euros)	*Available for sale*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
Private equity investments	**74**	**–**	**–**	**–**	**–**	**–**	**–**
Asset-backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Leverage finance	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans held for securitisation	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives with monolines	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other derivatives	**–**	**–**	**–**	**283**	**–**	**–**	**41**
Other portfolio	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2014	**74**	**–**	**–**	**283**	**–**	**–**	**41**
Private equity investments	99	–	–	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–
Leverage finance	–	–	–	–	–	–	–
Loans held for securitisation	–	–	–	–	–	–	–
Structured notes	–	–	–	–	–	–	–
Derivatives with monolines	–	–	–	–	–	–	–
Other derivatives	–	–	–	102	–	–	38
Other portfolio	–	–	–	–	–	–	–
At 31 December 2013	99	–	–	102	–	–	38

Private equity

The group's private equity positions are generally classified as available for sale and are not traded on an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted on an active market, or the price at which similar companies have changed ownership. Fair value investment estimation being subjected to judgement and uncertainty subjective factors remain until the private equity investment is sold.

Asset-backed securities (ABS)

Illiquidity and a lack of transparency in the ABS market have resulted in less observable data. While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For ABS, including residential mortgage backed securities, the valuation uses an industry standard model and the assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Derivatives

Over-the-counter (*i.e.* non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in practice.

30 Fair value of financial instruments carried at fair value *(continued)*

Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices *via* model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Examples of inputs that may be unobservable include volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices.

Derivative products valued using valuation techniques with significant unobservable inputs included certain types of correlation products, such as foreign exchange basket options, equity basket options, foreign exchange interest rate hybrid transactions and long-dated option transactions. Examples of the latter are equity options, interest rate and foreign exchange options and certain credit derivatives. Credit derivatives include certain tranched CDS transactions.

Loans

Loans held at fair value are valued from broker quotes and/or market data consensus providers where available. Where unavailable, fair value will be determined based on an appropriate credit spread derived from other market instruments issued by the same or comparable entities.

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives.

For assets and liabilities classified as held for trading, realised and unrealised gains and losses are presented in the income statement under ‘Trading income excluding net interest income’. Fair value changes on long-term debt designated at fair value and related derivatives are presented in the income statement under ‘Changes in fair value of long-term debt issued and related derivatives’. The income statement line item ‘Net income/(expense) from other financial instruments designated at fair value’ captures fair value movements on all other financial instruments designated at fair value and related derivatives.

Realised gains and losses from available-for-sale securities are presented under ‘Gains less losses of financial investments’ in the income statement, while unrealised gains and losses are presented in ‘Fair value gains/(losses) taken to equity’ within ‘Available-for-sale investments’ in other comprehensive income.

30 Fair value of financial instruments carried at fair value *(continued)*

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

	Assets				Liabilities		
(in millions of euros)	*Available for sale*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 January 2014	**99**	**–**	**–**	**102**	**–**	**–**	**38**
Total gains or losses recognised in profit or loss	**(8)**	**–**	**–**	**286**	**–**	**–**	**56**
– trading income excluding net interest income	–	–	–	286	–	–	56
– gains less losses from financial investments	(8)	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income	**14**	**–**	**–**	**–**	**–**	**–**	**–**
– available-for-sale investments fair value gains / (losses)	14	–	–	–	–	–	–
Purchases	**1**	**–**	**–**	**–**	**–**	**–**	**–**
Issues	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sales	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Settlements	**(33)**	**–**	**–**	**(105)**	**–**	**–**	**(53)**
Transfer out	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer in							
Exchange differences	**1**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2014	**74**	**–**	**–**	**283**	**–**	**–**	**41**
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 December	**1**	**–**	**–**	**283**	**–**	**–**	**41**
– trading income excluding net interest income	–	–	–	283	–	–	41
– gains less losses from financial investments	1	–	–	–	–	–	–

30 Fair value of financial instruments carried at fair value *(continued)*

(in millions of euros)	*Assets*				*Liabilities*		
	Available for sale	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*	*Held for trading*	*Designated at fair value through profit or loss*	*Derivatives*
At 1 January 2013	97	–	–	47	–	–	57
Total gains or losses recognised in profit or loss	6	–	–	29	–	–	(43)
– trading income excluding net interest income	–	–	–	29	–	–	(43)
– gains less losses from financial investments	6	–	–	–	–	–	–
Total gains or losses recognised in other comprehensive income	1	–	–	–	–	–	–
– available-for-sale investments fair value gains / (losses)	1	–	–	–	–	–	–
Purchases	5	–	–	–	–	–	–
Issues	–	–	–	–	–	–	–
Sales	–	–	–	–	–	–	–
Settlements	(10)	–	–	–	–	–	–
Transfer out	–	–	–	–	–	–	–
Transfer in	–	–	–	26	–	–	24
Exchange differences	–	–	–	–	–	–	–
At 31 December 2013	99	–	–	102	–	–	38
Unrealised gains/(losses) recognised in profit or loss relating to and liabilities held at 31 December	1	–	–	102	–	–	38
– trading income excluding net interest income	–	–	–	102	–	–	38
– gains less losses from financial investments	1	–	–	–	–	–	–

Sensitivity of Level 3 fair values to reasonably possible alternative assumption

The fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

(in millions of euros)	*Reflected in profit or loss*		*Reflected in other comprehensive income*	
	Favourable changes	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At December 2014				
Derivatives/trading assets/trading liabilities[1]	**8**	**(8)**	–	–
Financial investments: available-for-sale	**–**	**–**	**4**	**(7)**
At December 2013				
Derivatives/trading assets/trading liabilities[1]	1	(1)	–	–
Financial investments: available-for-sale	–	–	10	(10)

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

Consolidated financial statements (continued)

30 Fair value of financial instruments carried at fair value *(continued)*

The following table shows the sensitivity of level 3 fair values to reasonably possible alternative assumptions.

	Reflected in profit or loss		*Reflected in other comprehensive income*	
(in millions of euros)	*Favourable changes*	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At December 2014				
Private equity investments	**–**	**–**	**4**	**(7)**
Asset-backed securities	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**
Derivatives	**8**	**(8)**	**–**	**–**
Other portfolios	**–**	**–**	**–**	**–**
At December 2013				
Private equity investments	–	–	10	(10)
Asset-backed securities	–	–	–	–
Structured notes	–	–	–	–
Derivatives	1	(1)	–	–
Other portfolios	–	–	–	–

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

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

Key unobservable inputs to Level 3 financial instruments

The table above lists key unobservable inputs to level 3 financial instruments. A further description of the categories of key unobservable inputs is given below.

30 Fair value of financial instruments carried at fair value *(continued)*

(in millions of euros)	*Fair value* Assets	*Fair value* Liabilities	*Valuation technique*	*Key unobservable inputs*	*Full range of inputs* Lower	*Full range of inputs* Higher	*Core range of inputs* Lower	*Core range of inputs* Higher
At 31 December 2014								
Private equity including strategic investments	**74**		See notes below	See notes below	n/a	n/a	n/a	n/a
Asset-backed securities								
– CLO/CDO[1]	–	–	Market proxy	Bid quotes				
– Other ABSs	–	–						
Structured notes			Model – Option model	Equity volatility				
– Equity-linked notes	–	–	Model – Option model	Equity correlation				
– Fund-linked notes	–	–	Model – Option model	Fund volatility				
– FX-linked notes	–	–	Model – Option model	FX volatility				
– Other	–	–						
Derivatives	**283**	**41**						
Interest rate derivatives:								
– securitisation swaps	–	–	Model – DCF[2]	Prepayment rate				
– long-dated swaptions	–	–	Model – Option model	IR volatility				
– Other	**283**	**41**						
Foreign exchange derivatives:	**0**	**0**						
– Foreign exchange options	–	–	Model – Option model	FX volatility	5.25%	9.41%	6.41%	7.89%
Equity derivatives:	–	–						
– long-dated single stock options	–	–	Model – Option model	Equity volatility				
– Other	–	–						
Credit derivatives:	–	–						
– Other	–	–						
Other portfolios								
	357	**41**						

Consolidated financial statements (continued)

30 Fair value of financial instruments carried at fair value *(continued)*

(in millions of euros)	Fair value – Assets	Fair value – Liabilities	Valuation technique	Key unobservable inputs	Full range of inputs – Lower	Full range of inputs – Higher	Core range of inputs – Lower	Core range of inputs – Higher
At 31 December 2013								
Private equity including strategic investments	99	–	See notes below	See notes below	n/a	n/a	n/a	n/a
Asset-backed securities	–	–						
– CLO/CDO[1]	–	–	Market proxy	Bid quotes				
– Other ABSs	–	–						
Structured notes								
			Model – Option model	Equity volatility				
– Equity-linked notes	–	–	Model – Option model	Equity correlation				
– Fund-linked notes	–	–	Model – Option model	Fund volatility				
– FX-linked notes	–	–	Model – Option model	FX volatility				
– Other	–	–						
Derivatives	102	34						
Interest rate derivatives:								
– securitisation swaps	–	–	Model – DCF[2]	Prepayment rate				
– long-dated swaptions	68	6	Model – Option model	IR volatility	4.20%	18.45%	4.93%	17.89%
– Other	34	28						
Foreign exchange derivatives:								
– Foreign exchange options	–	4	Model – Option model	FX volatility	4.42%	10.86%	6.37%	6.37%
Equity derivatives:								
– long-dated single stock options	–	–	Model – Option model	Equity volatility				
– Other	–	–						
Credit derivatives:								
– Other	–	–						
Other portfolios	–	–						
	201	38						

1 *Collateralised loan obligation/collateralised debt obligation.*
2 *Discounted cash flow.*

Private equity including strategic investments

HSBC's private equity and strategic investments are generally classified as available for sale and are not traded on active markets. In the absence of an active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar quoted entities on an active market, or the price at which similar companies have changed ownership. Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

30 Fair value of financial instruments carried at fair value *(continued)*

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. Prepayment rates are an important input into modelled values of asset-backed securities. A modelled price may be used where insufficient observable market prices exist to enable a market price to be determined directly. Prepayment rates are also an important input into the valuation of derivatives linked to securitisations. For example, so-called securitisation swaps have a notional value that is linked to the size of the outstanding loan portfolio in a securitisation, which may fall as prepayments occur. Prepayment rates vary according to the nature of the loan portfolio, and expectations of future market conditions. For example, prepayment rates will generally be anticipated to increase as interest rates rise. Prepayment rates may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historic prepayment rates, macro-economic modelling.

Market proxy

Market proxy pricing may be used for an instrument for which specific market pricing is not available, but evidence is available in respect of instruments that have some characteristics in common. In some cases it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence. For example, in the collateralised loan obligation market (CLO) it may be possible to establish that A-rated securities exhibit prices in a range, and to isolate key factors that influence position within the range. Application of this to a specific A-rated security within HSBC's portfolio allows assignment of a price.

The range of prices used as inputs into a market proxy pricing methodology may therefore be wide. This range is not indicative of the uncertainty associated with the price derived for an individual security.

Volatility

Volatility is a measure of the anticipated future variability of a market price. Volatility tends to increase in stressed market conditions, and decrease in calmer market conditions. Volatility is an important input in the pricing of options. In general, the higher the volatility, the more expensive the option will be. This reflects both the higher probability of an increased return from the option, and the potentially higher costs that HSBC may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of HSBC's long option positions (i.e. the positions in which HSBC has purchased options), while HSBC's short option positions (i.e. the positions in which HSBC has sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. As a result, it is difficult to make general statements regarding volatility levels. For example, while it is generally the case that foreign exchange volatilities are lower than equity volatilities, there may be examples in particular currency pairs or for particular equities where this is not the case.

Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

The range of unobservable volatilities quoted in the table reflects below the wide variation in volatility inputs by reference market price. For example, FX volatilities for a pegged currency may be very low, whereas for non-managed currencies the FX volatility may be higher. As a further example, volatilities for deep-in-the-money or deep-out-of-the-money equity options may be significantly higher than at-the-money options as a result of 'volatility skew'. For any single unobservable volatility, the uncertainty in the volatility determination is significantly less than the range quoted above.

Correlation

Correlation is a measure of the inter-relationship between two market prices. Correlation is a number between minus one and one. A positive correlation implies that the two market prices tend to move in the same direction, with a correlation of one implying that they always move in the same direction. A negative correlation implies that the two market prices tend to move in opposite directions, with a correlation of minus one implying that the two market prices always move in opposite directions.

Correlation is used to value more complex instruments where the payout is dependent upon more than one market price. For example, an equity basket option has a payout that is dependent upon the performance of a basket of single stocks, and the correlation between the price movements of those stocks will be an input to the valuation. This is referred to as equity-equity correlation. There are a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations (e.g. equity-equity correlation) and cross-asset correlations (e.g. foreign exchange rate-interest rate correlation) used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

30 Fair value of financial instruments carried at fair value *(continued)*

Correlation may be unobservable. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships.

The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair. For any single unobservable correlation, the uncertainty in the correlation determination is likely to be less than the range quoted above.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept a lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices. Credit spreads may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macro-economic or other events. For example, improving economic conditions may lead to a 'risk on' market, in which prices of risky assets such as equities and high yield bonds will rise, while 'safe haven' assets such as gold and US Treasuries will decline. Furthermore, the impact of changing market variables upon the HSBC portfolio will depend upon HSBC's net risk position in respect of each variable. For example, increasing high-yield bond prices will benefit long high-yield bond positions, but the value of any credit derivative protection held against those bonds will fall.

31 Fair value of financial instruments not carried at fair value

The table below shows the fair-value of financial instruments not recognized at fair-value in the balance sheet. The carrying amount of all other financial instruments equals their fair-value.

	31.12.2014					31.12.2013	
(in millions of euros)	***Carrying value***	***Quoted market price Level 1***	***Using observable inputs Level 2***	***With significant unobservable inputs Level 3***	***Total***	*Carrying value*	*Fair value*
Assets							
Loans and advances to banks[1]	**6,022**	**–**	**6,002**	**–**	**6,022**	5,707	5,709
Loans and advances to customers[1]	**36,240**	**–**	**–**	**35,839**	**35,839**	34,528	34,076
Reverse repurchase agreements – non trading[1]	**14,796**	**–**	**14,796**	**–**	**14,796**	28,012	28,012
Liabilities							
Deposits by banks[1]	**7,021**	**–**	**7,021**	**–**	**7,021**	4,091	4,091
Customer accounts[1]	**33,635**	**–**	**33,656**	**–**	**33,656**	32,883	32,900
Repurchase agreements – non trading[1]	**15,938**	**–**	**15,938**	**–**	**15,938**	33,525	33,525
Debt securities in issue	**9,237**	**–**	**9,489**	**–**	**9,489**	9,017	9,058
Subordinated liabilities	**276**	**–**	**276**	**–**	**276**	16	16

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks and Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans ans advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

31 Fair value of financial instruments not carried at fair value *(continued)*

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently:

Assets

- Cash and balances at central banks;
- Items in the course of collection from other banks;
- Endorsements and accepted bills;
- Short-term receivables within 'Other assets';
- Accrued income.

Liabilities

- Items in the course of transmission to other banks;
- Investment contracts with discretionary participation features within 'Liabilities under insurance contracts';
- Endorsements and accepted bills;
- Short-term payables within 'Other liabilities';
- Accruals.

Valuation

The fair value measurement is HSBC France estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs expected to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

The fair value of financial assets and liabilities is calculated using models maintained by HSBC France, and is based on discounting expected cash flows. The calculated fair value difference predominantly arises on loans secured on residential properties. In this product segment, the most significant fair value difference arises from early repayment options included in mortgage loans, representing the cost to the bank of the embedded option.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the group as a going concern.

32 Maturity analysis of financial assets and liabilities

The balance in the table below will not agree directly with those in the consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and trading derivatives). In addition, loan and other credit-related commitments and financial guarantees and similar contracts are generally not recognised on the balance sheet.

Trading liabilities and trading derivatives have been included in the 'On demand' time bucket and not by contractual maturity, because trading liabilities are typically held for short periods of time. The undiscounted cash flows on hedging derivative liabilities are classified according to their contractual maturity.

The undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified on the basis of the earliest date they can be called.

Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice. However, in practice, short-term deposit balances remain stable as inflows and outflows broadly match and a significant portion of loan commitments expire without being drawn upon. The group therefore manages its balance sheet on both contractual and behaviouralised bases. Each operating entity determines the behaviouralisation of its products within the guidelines set out in the group's liquidity framework and as approved by its Asset and Liability Committee.

Consolidated financial statements (continued)

32 Maturity analysis of financial assets and liabilities *(continued)*

(in millions of euros)	**31.12.2014** On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Deposits by banks[1]	**3,574**	**1,140**	**497**	**1,709**	**101**	**7,021**
Repurchase Agreements – non trading[1]	**–**	**11,527**	**2,668**	**–**	**–**	**14,195**
Customer accounts[1]	**27,219**	**4,638**	**1,468**	**242**	**71**	**33,638**
Repurchase Agreements – non trading[1]	**–**	**885**	**1,128**	**–**	**–**	**2,013**
Trading liabilities	**29,407**	**–**	**–**	**–**	**–**	**29,407**
Financial liabilities designated at fair value	**–**	**5**	**201**	**3,155**	**3,811**	**7,172**
Derivatives	**68,754**	**–**	**–**	**829**	**–**	**69,583**
Debt securities in issue	**16**	**3,968**	**3,236**	**2,277**	**–**	**9,497**
Subordinated liabilities	**–**	**–**	**–**	**–**	**280**	**280**
Other financial liabilities	**–**	**731**	**420**	**172**	**558**	**1,881**
Loan commitments	**1,141**	**1,049**	**1,884**	**15,766**	**2,296**	**22,136**
Total at 31 December 2014	**130,311**	**23,943**	**11,502**	**24,150**	**7,117**	**196,823**

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

(in millions of euros)	31.12.2013 On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Deposits by banks[2]	578	2,725	149	764	168	4,384
Repurchase Agreements – non trading[1,2]	–	16,239	2,259	–	–	18,498
Customer accounts[2]	23,822	7,390	1,595	211	134	33,152
Repurchase Agreements – non trading[1,2]	–	6,116	8,911	–	–	15,027
Trading liabilities	37,031	–	–	–	–	37,031
Financial liabilities designated at fair value	1,868	–	–	3,346	4,131	9,345
Derivatives	55,616	–	–	975	–	56,591
Debt securities in issue	3,081	2,020	2,723	1,194	24	9,042
Subordinated liabilities	–	–	–	–	35	35
Other financial liabilities	350	642	509	143	635	2,279
Loan commitments	–	1,676	2,321	13,991	2,395	20,383
Total at 31 December 2013	122,346	36,808	18,467	20,624	7,522	205,767

1 *Repurchase agreements and reverse repurchase agreements include netting of the repurchase agreements transactions, as contractual undiscounted cash flows should be disclosed on a net settlement basis. Netting of those items was excluded in previous disclosures.*
2 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers". Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

The following table shows the financial assets and liabilities by remaining maturity at the closing date for amounts to be paid or received up to one year or over one year.

Contractual maturity is considered to be a reasonable approximation of expected maturity for the assets and liabilities analysed below. However, for items such as demand deposits and overdrafts, the contractual maturities could differ from expected maturities.

32 Maturity analysis of financial assets and liabilities *(continued)*

	31.12.2014						
(in millions of euros)	*Due within 1 month*	*Due between 1 month and 1 year*	***Subtotal due within 1 year***	*Due between 1 and 5 years*	*Due after 5 years*	***Subtotal due after more than 1 year***	***Total***
Assets							
Financial assets designated at fair value	8	23	**31**	306	5,819	**6,125**	**6,156**
Loans and advances to banks[1]	2,009	550	**2,559**	3,161	302	**3,463**	**6,022**
Reverse Repurchase Agreements – non-trading[1]	5,607	3,976	**9,583**	352	–	**352**	**9,935**
Loans and advances to customers[1]	4,421	6,062	**10,483**	13,092	12,665	**25,757**	**36,240**
Reverse Repurchase Agreements – non-trading[1]	2,751	2,110	**4,861**	–	–	**–**	**4,861**
Financial investments available for sale	303	2,039	**2,342**	11,372	10,958	**22,330**	**24,672**
Other financial assets	26	218	**244**	7	25	**32**	**276**
	15,125	14,978	**30,103**	28,290	29,769	**58,059**	**88,162**
Liabilities							
Deposits by banks[1]	4,583	628	**5,211**	1,709	101	**1,810**	**7,021**
Repurchase Agreements – non-trading[1]	10,361	3,564	**13,925**	–	–	**–**	**13,925**
Customer accounts[1]	29,531	3,794	**33,325**	242	68	**310**	**33,635**
Repurchase Agreements – non-trading[1]	772	1,241	**2,013**	–	–	**–**	**2,013**
Financial liabilities designated at fair value	–	206	**206**	3,105	3,600	**6,705**	**6,911**
Debt securities in issue	1,472	5,492	**6,964**	2,273	–	**2,273**	**9,237**
Other financial liabilities	169	274	**443**	59	21,139	**21,198**	**21,641**
Subordinated liabilities	–	–	**–**	–	276	**276**	**276**
	46,888	15,199	**62,087**	7,388	25,184	**32,572**	**94,659**

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'.*
Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.

Consolidated financial statements (continued)

32 Maturity analysis of financial assets and liabilities *(continued)*

(in millions of euros)	31.12.2013 Due within 1 month	Due between 1 month and 1 year	Subtotal due within 1 year	Due between 1 and 5 years	Due after 5 years	Subtotal due after more than 1 year	Total
Assets							
Financial assets designated at fair value	2	38	40	398	5,801	6,199	6,239
Loans and advances to banks[1]	1,553	484	2,037	3,320	350	3,670	5,707
Reverse Repurchase Agreements – non-trading[1]	12,008	4,513	16,521	858	–	858	17,379
Loans and advances to customers[1]	4,153	5,757	9,910	12,954	11,664	24,618	34,528
Reverse Repurchase Agreements – non-trading[1]	7,289	3,344	10,633	–	–	–	10,633
Financial investments available for sale	445	2,046	2,491	10,487	10,712	21,199	23,690
Other financial assets	14	233	247	1	12	13	260
	25,464	16,415	41,879	28,018	28,539	56,557	98,436
Liabilities							
Deposits by banks[1]	2,312	1,049	3,361	614	116	730	4,091
Repurchase Agreements – non-trading[1]	14,481	4,017	18,498	–	–	–	18,498
Customer accounts[1]	28,704	3,908	32,612	212	59	271	32,883
Repurchase Agreements – non-trading[1]	3,889	11,138	15,027	–	–	–	15,027
Financial liabilities designated at fair value	1,490	–	1,490	3,005	3,634	6,639	8,129
Debt securities in issue	3,118	4,697	7,815	1,179	23	1,202	9,017
Other financial liabilities	156	179	335	17	19,828	19,845	20,180
Subordinated liabilities	–	–	–	–	16	16	16
	54,150	24,988	79,138	5,027	23,676	28,703	108,841

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'.*
Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.

Further information regarding the group's liquidity and funding management is available in the Risk management section pages 90 to 95.

33 Assets charged as security for liabilities and collateral accepted as security for assets

Financial assets pledged to secure liabilities are as follows:

(in millions of euros)	**31.12.2014**	31.12.2013
Treasury bills and other eligible securities	**206**	1,597
Loans and advances to banks	**4,207**	4,027
Loans and advances to customers	**17,223**	19,249
Debt securities	**24,170**	29,588
Equity shares	**–**	–
	45,806	54,461

33 Assets charged as security for liabilities and collateral accepted as security for assets *(continued)*

The table above shows assets over which a legal charge has been granted to secure liabilities. The amount of such assets may be greater than the book value of assets utilised as collateral for funding purposes or to cover liabilities. This is the case for securitisations and covered bonds where the amount of liabilities issued, plus any mandatory over-collateralisation, is less than the book value of financial assets available for funding or collateral purposes in the relevant pool of assets.

This is also the case where financial assets are placed with a custodian or settlement agent, which has a floating charge over all the financial assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions, including, where relevant, standard securities lending and repurchase agreements.

The method of repurchase agreements allocation has changed on 31 December 2014. Now Bonds used for repurchase agreements positions are coming first from reverse repurchase positions, then borrows transactions, and last from long positions that is from trading financial instruments, and from available for sale financial instruments except from the portfolio required for the liquidity buffer.

Collateral accepted as security for assets

The fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default was EUR 43,146 million at 31 December 2014 (EUR 55,676 million at 31 December 2013).

The fair value of financial assets accepted as collateral that have been sold or repledged was EUR 38,146 million at 31 December 2014 (EUR 52,081 million at 31 December 2013). The group is required to return these assets.

34 Called up share capital

The share capital of HSBC France at 31 December 2014 was EUR 337 million divided into 67,437,827 ordinary shares of EUR 5 each, fully paid.

	Number of HSBC France ordinary shares	*Amount (in millions of euros)*
At 1 January 2014	**67,437,827**	**337**
Shares issued	**–**	**–**
At 31 December 2014	**67,437,827**	**337**
At 1 January 2013	67,437,827	337
Shares issued	–	–
At 31 December 2013	67,437,827	337

Consolidated financial statements (continued)

35 Notes on the cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash and balances at central banks, treasury bills and other eligible bills, loans and advances to banks, and certificates of deposit. HSBC France has taken into account the guidance issued by the '*Autorité des marchés financiers*' (AMF) in early 2006 in respect of '*OPCVM de trésorerie*' (cash unit trusts).

Non-cash items included in income

(in millions of euros)	**31.12.2014**	31.12.2013
Depreciation and amortisation	**53**	56
Share-based payments	**14**	(26)
Revaluations on investment property	**–**	6
Loan impairment losses	**99**	97
Loans written off net of recoveries	**–**	(125)
Provisions raised	**18**	86
Provisions utilised	**–**	(22)
Impairment of financial investments	**12**	5
Accretion of discounts and amortisation of premiums	**10**	(19)
Other	**(81)**	(94)
	125	(36)

Change in operating assets[1]

(in millions of euros)	**31.12.2014**	31.12.2013
Change in prepayments and accrued income	**120**	276
Change in net trading securities and net derivatives	**(3,023)**	(1,935)
Change in loans and advances to banks	**(6,062)**	(1,362)
Change in loans and advances to customers	**3,957**	3,206
Change in financial investments[1]	**–**	(13,660)
Change in financial assets designated at fair value	**83**	(6,234)
Change in other assets	**84**	(515)
	(4,841)	(20,776)

1 *'Change in financial investment' is no more disclosed within 'Change in operating assets' at 31 December 2014.*

Change in operating liabilities

(in millions of euros)	**31.12.2014**	31.12.2013
Change in accruals and deferred income	**(183)**	(246)
Change in deposits by banks	**(662)**	(10,403)
Change in customer accounts	**(12,784)**	5,546
Change in debt securities in issue	**220**	(1,638)
Change in financial liabilities designated at fair value	**(1,217)**	2,476
Change in other liabilities	**661**	20,230
	(13,965)	15,965

Breakdown of cash and cash equivalents

(in millions of euros)	**31.12.2014**	31.12.2013
Cash and balances at central banks	**523**	5,995
Items in the course of collection from other banks (assets)	**367**	607
Loans and advances to banks due in one month or less	**3,525**	16,197
Treasury bills, other bills and certificates of deposit due in less than three months	**80**	293
Less: cash accounts (liabilities)	**(368)**	(585)
	4,127	22,507

36 Risk management

All the HSBC France group's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

The most important types of risk arising from financial instruments are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate and equity price risk. In addition, risk also arises from transactions with special purpose entities, both on- and off-balance sheet, and other types of off-balance sheet arrangements, including financial guarantees, letters of credit and lending commitments.

The management of risks that are significant to the group is discussed in the Risk management section on pages 81 to 109.

1. Credit risk management

a *General policies and impairment*

Initiatives undertaken and risks identified

The management of credit risk within the HSBC France group is discussed in the Risk management section on pages 81 to 86.

Impairment assessment

Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

Two types of impairment allowance are in place: individually assessed and collectively assessed, which are discussed in Note 2 c.

Impaired loans – identification of loss events

The criteria used by HSBC France to determine that a loan is impaired include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days (the period is extended to more than six months for property loans or leases and more than nine months for loans to local government bodies);
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- the deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk with respect to financial instruments, before taking account of any collateral held or other credit enhancements, unless such credit enhancements meet offsetting requirements defined in the accounting policies and principles. For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

With respect to certain financial assets, the group typically has legally enforceable rights to offset certain credit exposures against amounts owing to the same counterparty. In normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, for reporting purposes, the financial assets are not offset against the respective financial liabilities. However, the exposure to credit risk relating to the respective financial assets is reduced as tabulated below.

Consolidated financial statements (continued)

36 Risk management *(continued)*

(in millions of euros)	31.12.2014 *Maximum exposure*	*Offset*	*Net exposure to credit risk*
Cash and balances at central banks	**523**	**–**	**523**
Items in the course of collection from other banks	**367**	**–**	**367**
Trading assets	**38,720**	**–**	**38,720**
– treasury and other eligible bills	**639**	**–**	**639**
– debt securities	**28,866**	**–**	**28,866**
– loans and advances	**9,215**	**–**	**9,215**
Financial assets designated at fair value	**909**	**–**	**909**
– debt securities	**907**	**–**	**907**
– loans and advances	**2**	**–**	**2**
Derivatives	**70,567**	**(68,047)**	**2,520**
Loans and advances held at amortised cost	**42,262**	**–**	**42,262**
– loans and advances to banks[1]	**6,022**	**–**	**6,022**
– loans and advances to customers[1]	**36,240**	**–**	**36,240**
– personal	**12,851**	**–**	**12,851**
– corporate and commercial	**21,824**	**–**	**21,824**
– financial (non-bank financial institutions)	**1,565**	**–**	**1,565**
Reverse repurchase agreements – non-trading[1]	**14,796**	**(6,268)**	**8,528**
Financial investments	**24,464**	**–**	**24,464**
– treasury and other eligible bills	**205**	**–**	**205**
– debt securities	**24,259**	**–**	**24,259**
Other assets	**1,279**	**–**	**1,279**
Off-balance sheet	**28,538**	**–**	**28,538**
– financial guarantees and other credit-related guarantees	**2,285**	**–**	**2,285**
– loan commitments and other credit-related commitments	**26,253**	**–**	**26,253**
Total	**222,425**	**(74,315)**	**148,110**

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

36 Risk management *(continued)*

(in millions of euros)	31.12.2013 *Maximum exposure*	*Offset*	*Net exposure to credit risk*
Cash and balances at central banks	5,994	–	5,994
Items in the course of collection from other banks	607	–	607
Trading assets	41,601	–	41,601
– treasury and other eligible bills	2,375	–	2,375
– debt securities	30,274	–	30,274
– loans and advances	8,952	–	8,952
Financial assets designated at fair value	1,121	–	1,121
– debt securities	1,118	–	1,118
– loans and advances	3	–	3
Derivatives	59,506	(58,513)	993
Loans and advances held at amortised cost	40,235	–	40,235
– loans and advances to banks[1]	5,707	–	5,707
– loans and advances to customers[1]	34,528	–	34,528
– personal	11,871	–	11,871
– corporate and commercial	20,693	–	20,693
– financial (non-bank financial institutions)	1,964	–	1,964
Reverse repurchase agreements - non-trading[1]	28,012	(12,005)	16,007
Financial investments	23,470	–	23,470
– treasury and other eligible bills	–	–	–
– debt securities	23,470	–	23,470
Other assets	1,390	–	1,390
Off-balance sheet	27,019	–	27,019
– financial guarantees and other credit-related guarantees	2,384	–	2,384
– loan commitments and other credit-related commitments	24,635	–	24,635
Total	228,955	(70,518)	158,437

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

Consolidated financial statements (continued)

36 Risk management *(continued)*

Loans and advances to customers by industry sector

	31.12.2014		31.12.2013	
	Gross loans and advances to customers (in millions of euros)	***Gross loans by industry sector as a % of total gross loans (%)***	*Gross loans and advances to customers (in millions of euros)*	*Gross loans by industry sector as a % of total gross loans (%)*
Personal	**12,952**	**35.08**	11,981	34.00
– residential mortgages	**2,399**	**6.50**	1,932	5.48
– crédit Logement[1]	**8,315**	**22.52**	7,221	20.49
– other personal[1]	**2,238**	**6.06**	2,828	8.03
Corporate and commercial	**22,356**	**60.53**	21,233	60.26
– commercial, industrial and international trade	**11,350**	**30.74**	10,913	30.97
– commercial real estate (including private real estate companies*)	**5,784**	**15.66**	5,881	16.69
– other property-related	**260**	**0.70**	249	0.71
– government	**268**	**0.73**	207	0.59
– other commercial	**4,694**	**12.70**	3,983	11.30
Financial	**1,619**	**4.39**	2,020	5.74
– non-bank financial institutions	**1,619**	**4.39**	2,019	5.74
– settlement accounts	**–**	**–**	1	–
Total gross loans and advances to customers	**36,929**	**100.00**	35,234	100.00

* *SCI familiales.*

1 *From 1 January 2014, HSBC France separately details the line 'Crédit Logement', which was previously included in the line 'Other personal'.*

Loans and advances to customers by geographical area (excluding reverse repurchase agreements transactions and settlement accounts)

As at 31 December 2014, 88 per cent of loans to customers (excluding reverse repurchase agreements transactions and settlement accounts) were to French counterparties (89 per cent as at 31 December 2013).

Reverse repurchase agreements transactions amounted to 57 per cent with French counterparties and 43 per cent with counterparties in other European countries (mainly with the United Kingdom).

Credit quality of financial instruments

The five credit quality classifications defined below encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external rating, attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level. Insofar as both full within one of the five classifications.

Quality Classification

	Debt securities and other bills	*Wholesale lending and derivatives*		*Retail lending*	
	External credit rating	*Internal credit rating*	*Probability of default %*	*Internal credit rating*	*Expected loss %*
Strong	A- and above	CRR 1 to CRR 2	0 – 0.169	EL 1 to EL 2	0 – 0.999
Good	BBB+ to BBB-	CRR 3	0.170 – 0.740	EL 3	1.000 – 4.999
Satisfactory	BB+ to B+ and unrated	CRR 4 to CRR 5	0.741 – 4.914	EL 4 to EL 5	5.000 – 19.999
Sub-standard	B and below	CRR 6 to CRR 8	4.915 – 99.999	EL 6 to EL 8	20.000 – 99.999
Impaired	Impaired	CRR 9 to CRR 10	100	EL 9 to EL 10	100+ or defaulted[1]

1 *The EL percentage is derived through a combination of Probability of Default ('PD') and Loss Given Default ('LGD') and may exceed 100 per cent in circumstances where the LGD is above 100 per cent reflecting the cost of recoveries.*

36 Risk management *(continued)*

Quality classification definitions

'Strong': exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within applicable product parameters and only exceptionally show any period of delinquency.

'Good': exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.

'Satisfactory': exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Retail accounts typically showing only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.

'Sub-standard': exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments showing longer delinquency periods of generally up to 90 days; past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.

'Impaired': exposures have been assessed, individually or collectively, as impaired. The group observes the disclosure convention, reflected in the quality classification definitions above, that all retail accounts delinquent by 90 days or more (180 days for mortgage loans) are considered impaired.

Risk rating scales

All distinct HSBC customers are rated using the PD scale, except for those still under the Standard Basel II method.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications. The most recent mapping review resulted in 'B-' being mapped to CRR5. Accordingly 'B-' ratings are now mapped to 'Satisfactory'. This represents a change in disclosure mapping unrelated to changes in counterparty creditworthiness.

For the purpose of the following disclosure, retail loans which are past due up to 89 days are not disclosed within the EL grade to which they relate, but are separately classified as past due but not impaired. The following tables set out the group's distribution of financial instruments by measures of credit quality.

For details of impairment incurred on available-for-sale debt and equity securities, see 'Significant accounting policies' in Note 2 d page 124 and 125.

Wholesale lending

(in millions of euros)	*Gross loans*	*Impaired loans*	*Impaired loans %*	*Impairment allowance*	*Impairment allowance/ impaired loans*	*Loans impairment charge*	*Loan loss rate %*
At 31 December 2014							
Corporate and commercial	**22,357**	**1,129**	**5%**	**534**	**47%**	**90**	**0.40%**
Non-bank financial	**1,620**	**75**	**5%**	**54**	**72%**	**7**	**0.42%**
Asset-backed securities reclassified	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**6,022**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2013							
Corporate and commercial	21,233	1,174	6%	541	46%	67	0.32%
Non-bank financial	2,020	106	5%	54	51%	4	0.22%
Asset-backed securities reclassified	–	–	–	–	–	–	–
Loans and advances to banks	5,707	–	–	–	–	–	–

Consolidated financial statements (continued)

36 Risk management *(continued)*

Distribution of financial instruments by credit quality

(in millions of euros)	31.12.2014 Neither past due nor impaired Strong	Good	Satis-factory	Sub-standard	Past due not impaired	Impaired	Impairment allowances	Total
Cash and balances at central banks	**523**	**–**	**–**	**–**	**–**	**–**	**–**	**523**
Items in the course of collection from other banks	**367**	**–**	**–**	**–**	**–**	**–**	**–**	**367**
Trading assets	**28,739**	**6,854**	**3,118**	**9**	**–**	**–**	**–**	**38,720**
Treasury and other eligible bills and debt securities	**22,980**	**5,485**	**1,034**	**6**	**–**	**–**	**–**	**29,505**
Loans and advances to banks	**3,070**	**1,001**	**1,795**	**3**	**–**	**–**	**–**	**5,869**
Loans and advances to customers	**2,689**	**368**	**289**	**–**	**–**	**–**	**–**	**3,346**
Financial assets designated at fair value	**815**	**86**	**8**	**–**	**–**	**–**	**–**	**909**
Treasury and other eligible bills and debt securities	**815**	**86**	**6**	**–**	**–**	**–**	**–**	**907**
Loans and advances to banks	**–**	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Loans and advances to customers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives	**66,132**	**3,485**	**912**	**38**	**–**	**–**	**–**	**70,567**
Loans and advances held at amortised cost	**27,009**	**8,356**	**5,239**	**572**	**246**	**1,529**	**(689)**	**42,262**
Loans and advances to banks	**5,434**	**368**	**202**	**18**	**–**	**–**	**–**	**6,022**
Loans and advances to customers	**21,575**	**7,988**	**5,037**	**554**	**246**	**1,529**	**(689)**	**36,240**
– personal	**11,915**	**483**	**56**	**–**	**174**	**324**	**(101)**	**12,851**
– corporate and commercial	**9,028**	**7,058**	**4,540**	**531**	**70**	**1,130**	**(534)**	**21,823**
– financial (non-bank financial institutions)	**632**	**447**	**441**	**23**	**2**	**75**	**(54)**	**1,566**
Reverse repurchase agreement non trading[1]	**13,175**	**25**	**1,596**	**–**	**–**	**–**	**–**	**14,796**
Financial investments	**21,577**	**2,021**	**849**	**17**	**–**	**–**	**–**	**24,464**
Treasury and other similar bills and debt securities	**21,577**	**2,021**	**849**	**17**	**–**	**–**	**–**	**24,464**
Other assets	**–**	**–**	**1,279**	**–**	**–**	**11**	**(11)**	**1,279**
Endorsements and acceptances	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Accrued income and other	**–**	**–**	**1,279**	**–**	**–**	**11**	**(11)**	**1,279**
Total	**158,337**	**20,827**	**13,001**	**636**	**246**	**1,540**	**(700)**	**193,887**
Off balance sheet	**13,904**	**9,050**	**5,294**	**202**	**–**	**84**	**4**	**28,538**
Financial guarantees and similar contracts	**681**	**1,095**	**439**	**36**	**–**	**33**	**1**	**2,285**
Loan and other credit-related commitments – endorsements and acceptances	**13,223**	**7,955**	**4,855**	**166**	**–**	**51**	**3**	**26,253**
Total	**172,241**	**29,877**	**18,295**	**838**	**246**	**1,624**	**(696)**	**222,425**

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

36 Risk management *(continued)*

	31.12.2013							
	Neither past due nor impaired							
(in millions of euros)	*Strong*	*Good*	*Satis-factory*	*Sub-standard*	*Past due not impaired*	*Impaired*	*Impairment allowances*	*Total*
Cash and balances at central banks	5,994	–	–	–	–	–	–	5,994
Items in the course of collection from other banks	607	–	–	–	–	–	–	607
Trading assets	29,608	8,106	3,866	21	–	–	–	41,601
Treasury and other eligible bills and debt securities	25,108	6,837	704	–	–	–	–	32,649
Loans and advances to banks	3,460	750	2,242	21	–	–	–	6,473
Loans and advances to customers	1,040	519	920	–	–	–	–	2,479
Financial assets designated at fair value	1,034	78	9	–	–	–	–	1,121
Treasury and other eligible bills and debt securities	1,034	78	6	–	–	–	–	1,118
Loans and advances to banks	–	–	3	–	–	–	–	3
Loans and advances to customers	–	–	–	–	–	–	–	–
Derivatives	56,330	2,371	763	42	–	–	–	59,506
Loans and advances held at amortised cost	24,826	8,178	5,370	723	242	1,602	(705)	40,236
Loans and advances to banks	4,903	398	400	6	–	–	–	5,707
Loans and advances to customers	19,923	7,780	4,970	717	242	1,602	(705)	34,529
– personal	11,011	559	7	–	82	322	(110)	11,871
– corporate and commercial	8,791	6,650	3,812	659	147	1,174	(540)	20,693
– financial (non-bank financial institutions)	121	571	1,151	58	13	106	(55)	1,965
Reverse repurchase agreement non trading[1]	25,942	498	1,572	–	–	–	–	28,012
Financial investments	21,316	1,690	449	15	–	4	(4)	23,470
Treasury and other similar bills and debt securities	21,316	1,690	449	15	–	4	(4)	23,470
Other assets	–	–	1,389	–	–	–	–	1,389
Endorsements and acceptances	–	–	–	–	–	–	–	–
Accrued income and other	–	–	1,389	–	–	–	–	1,389
Total	165,656	20,921	13,418	801	242	1,606	(709)	201,935
Off balance sheet	11,968	10,029	4,545	390	–	–	–	26,932
Financial guarantees and similar contracts	454	1,365	454	85	–	–	–	2,358
Loan and other credit-related commitments – endorsements and acceptances	11,514	8,664	4,091	305	–	–	–	24,574
Total	177,624	30,950	17,963	1,191	242	1,606	(709)	228,867

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

36 Risk management *(continued)*

Ageing analysis of past due but not impaired gross financial instruments

Past due but not impaired loans are those for which the customer is in the early stages of delinquency and has failed to make payment, or a partial payment in accordance with the contractual terms of the loan agreement. This is typically where a loan is less than 90 days past due and there are no other indicators of impairment.

Further examples of exposures past due but not impaired include individually assessed mortgages that are in arrears more than 90 days, but there are no other indicators of impairment and the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year, or short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation but there is no concern over the creditworthiness of the counterparty.

The following table provides an analysis of gross loans and advances to customers held at amortised cost which are past due but not considered impaired including temporary overrun. There are no other significant balance sheet items where past due balances are not considered impaired.

(in millions of euros)	*Up to 29 days*	*30-59 days*	*60-89 days*	*Total*
At 31 December 2014				
Loans and advances to customers held at amortised cost	**196**	**39**	**11**	**246**
– personal	**131**	**33**	**10**	**174**
– corporate and commercial	**63**	**6**	**1**	**70**
– financial (non-bank financial institutions)	**2**	**–**	**–**	**2**
At 31 December 2013				
Loans and advances to customers held at amortised cost	150	48	43	241
– personal	48	24	10	82
– corporate and commercial	94	20	33	147
– financial (non-bank financial institutions)	8	4	–	12

Movement in allowance accounts for total loans and advances

	Year ended 31.12.2014		
(in millions of euros)	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January	**(620)**	**(85)**	**(705)**
Amounts written off	**115**	**–**	**115**
Release of allowances no longer required	**101**	**11**	**112**
(Charge) to income statement	**(218)**	**(1)**	**(219)**
Exchange and other movements	**8**	**–**	**8**
At 31 December	**(614)**	**(75)**	**(689)**

	Year ended 31.12.2013		
(in millions of euros)	*Individually assessed*	*Collectively assessed*	*Total*
At 1 January	(676)	(76)	(752)
Amounts written off	127	–	127
Release of allowances no longer required	85	5	90
(Charge) to income statement	(174)	(13)	(187)
Exchange and other movements	18	(1)	17
At 31 December	(620)	(85)	(705)

36 Risk management *(continued)*

Impairment allowances against loans and advances to customers

(in per cent)	31.12.2014	31.12.2013
Total impairment allowances in percentage to gross lending[1]		
– individually assessed impairment allowances	**1.66**	1.76
– collectively assessed impairment allowances	**0.20**	0.24
Total	**1.86**	2.00

1 *Net of repurchase agreement transactions and settlement accounts.*

Loan impairment charges and other credit risk provisions

(in millions of euros)	31.12.2014	31.12.2013
Individually assessed impairment allowances		
New allowances and unprovided losses	**218**	174
Release of allowances no longer required	**(101)**	(85)
Recoveries of amounts previously written off	**(3)**	(3)
Amount written off	**115**	127
Utilisation of allowance	**(115)**	(127)
	114	86
Collectively assessed impairment allowances		
New allowances	**1**	13
Release of allowances no longer required	**(11)**	(4)
Recoveries of amounts previously written off	**–**	–
	(10)	9
Total charge for impairment losses	**104**	95
– banks	**–**	–
– customers	**104**	95
Other credit risk provisions	**(1)**	2
Impairment charges on debt security investments available-for-sale	**9**	–
Loan impairment charges and other credit risk provisions	**112**	97
Customer charge for impairment losses as a percentage of closing gross loans and advances to customers[2]	**0.30%**	0.28%
Balances outstanding		
Non-performing loans	**1,529**	1,603
Individual impairment allowances	**614**	620
Gross loans and advances		
– banks[1]	**6,022**	23,086
– customers[1]	**36,929**	45,866
Total	**42,951**	68,952
Total allowances cover as a percentage of non-performing loans and advances[2]	**40.17%**	38.68%

1 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

2 *For the year 2013, percentages have been modified in accordance with new disclosure of the repurchase agreements at amortized cost and reverse repurchase agreements at amortized cost.*

Collateral and other credit enhancements

Although collateral can be an important mitigant of credit risk, the HSBC Group's practice is to lend on the basis of the customer's ability to meet their obligations out of their resources rather than rely on the value of security. For some loans, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, HSBC France may use the collateral as a source of repayment.

36 Risk management *(continued)*

Depending upon its nature, collateral can have a significant financial effect in mitigating exposure to credit risk of the HSBC France group. The value of this collateral is based on fixed charges the HSBC France group holds over a borrower's specific asset.

As at 31 December 2014, the total collateral value accepted by HSBC France is EUR 18,300 million (EUR 42,415 million in 2013). At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.

Moreover, note the HSBC France group may employ other types of collateral and credit risk enhancements, such as second charges, unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

b *Encumbered and unencumbered assets*

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on and off-balance sheet).

(in millions of euros)	**31.12.2014**
Total on-balance sheet assets	**201,018**
Less:	
– reverse repo/ stock borrowing receivables and derivative assets	**(85,467)**
– other assets that cannot be pledged as collateral	**(34,797)**
Total on-balance sheet assets that can support funding and collateral needs	**80,754**
Add off-balance sheet assets:	
– fair value of collateral received in relation to reverse repo/ stock borrowing that is available to sell or repledge	**43,146**
– fair value of collateral received in relation to derivatives that is available to sell or repledge	**150**
Total assets that can support future funding and collateral needs	**124,050**
Less:	
– on-balance sheet assets pledged	**(30,932)**
– re-pledging of off-balance sheet collateral received in relation to reverse repo/stock borrowing	**(38,146)**
– re-pledging of off-balance sheet collateral received in relation to derivatives	**–**
Total assets available to support funding and collateral needs	**54,972**

The effect of active collateral management

Collateral is managed on an operating entity basis, consistent with the approach adopted in managing liquidity and funding. Available collateral held by each operating entity is managed as a single collateral pool. In deciding which collateral to pledge, each operating entity seeks to optimise the use of the available collateral pool within the confines of the Liquidity and funding risk management framework ('LFRF'), irrespective of whether the collateral pledged is recognised on-balance sheet or was received in respect of reverse repo, stock borrowing or derivative transactions.

Managing collateral in this manner affects the presentation of asset encumbrance in that we may encumber on-balance sheet holdings while maintaining available unencumbered off-balance sheet holdings, even though we are not seeking to directly finance the on-balance sheet holdings pledged.

In quantifying the level of encumbrance of negotiable securities, the encumbrance is analysed by individual security. When a particular security is encumbered and we hold the security both on-balance sheet and off-balance sheet with the right to repledge, we assume for the purpose of this disclosure that the off-balance sheet holding received from third party is encumbered ahead of the on-balance sheet holding.

36 Risk management *(continued)*

An on-balance sheet encumbered and off-balance sheet unencumbered asset will occur, for example, if we receive a specific security as a result of a reverse repo/stock borrowing transaction, but finance the cash lent by pledging a generic collateral basket, even if the security received is eligible for the collateral basket pledged. It will also occur if we receive a generic collateral basket as a result of a reverse repo transaction but finance the cash lent by pledging specific securities, even if the securities pledged are eligible for the collateral basket.

c *Renegotiated loans and forbearance*

The contractual terms of a loan may be modified for a number of reasons, including changes in market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. We classify and report loans on which concessions have been granted under conditions of credit distress as 'renegotiated loans' when their contractual payment terms have been modified, because we have significant concerns about the borrowers' ability to meet contractual payments when due. On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and recognised as a new loan, for accounting purposes. However, the newly recognised financial asset will retain the renegotiated loan classification. Concessions, on loans made to customers, which do not affect the payment structure or basis of repayment, such as waivers of financial or security covenants, do not directly provide concessionary relief to customers in terms of their ability to service obligations as they fall due and are therefore not included in this classification.

For retail lending, our credit risk management policy sets out restrictions on the number and frequency of renegotiations, the minimum period an account must have been opened before any renegotiation can be considered and the number of qualifying payments that must be received. The application of this policy varies according to the nature of the market, the product and the management of customer relationships through the occurrence of exceptional events.

Credit quality classification of renegotiated loans

Under IFRSs, an entity is required to assess whether there is objective evidence that financial assets are impaired at the end of each reporting period. A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated.

A renegotiated loan is presented as impaired when:

– there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider, and
– it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is in-significant and there are no other indicators of impairment.

The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, All available evidence is assessed on a case-by-case basis.

For retail lending the minimum period of payment performance required depends on the nature of loans in the portfolio, but is typically not less than six months. Where portfolios have more significant levels of forbearance activity, such as that undertaken by HSBC Finance, the minimum repayment performance period required may be substantially more. Payment performance periods are monitored to ensure they remain appropriate to the levels of recidivism observed within the portfolio. These performance periods are in addition to a minimum of two payments which must be received within a 60-day period for the customer to initially qualify for the renegotiation. The qualifying payments are required in order to demonstrate that the renegotiated terms are sustainable for the borrower. For corporate and commercial loans, which are individually assessed for impairment and where non-monthly payments are more commonly agreed, the history of payment performance will depend on the underlying structure of payments agreed as part of the restructuring.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation. Unimpaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

36 Risk management *(continued)*

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in derecognition of the existing loan, such as in some debt consolidations, the new loan is disclosed as renegotiated. When determining whether a loan that is restructured should be derecognised and a new loan recognised, we consider the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument. The following are examples of circumstances that are likely to result in this test being met and derecognition accounting being applied:

– an uncollateralised loan becomes fully collateralised;
– the addition or removal of cross-collateralisation provisions;
– multiple facilities are consolidated into a single new facility;
– removal or addition of conversion features attached to the loan agreement;
– a change in the currency in which the principal or interest is denominated;
– a change in the liquidation preference or ranking of the instrument; or
– the contract is altered in any other manner so that the terms under the new or modified contract are substantially different from those under the original contract.

The following are examples of factors that we consider may indicate that the revised loan is a substantially different financial instrument, but are unlikely to be conclusive in themselves:

– changes in guarantees or loan covenants provided;
– less significant changes to collateral arrangements; or
– the addition of repayment provisions or prepayment premium clauses

Renegotiated loans and recognition of impairment allowances

For retail lending, renegotiated loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the higher rates of losses often encountered in these segments. When empirical evidence indicates an increased propensity to default and higher losses on such accounts, the use of roll rate methodology ensures these factors are taken into account when calculating impairment allowances by applying roll rates specifically calculated on the pool of loans subject to forbearance. When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, a basic formulaic approach based on historical loss rate experience is used. As a result of our roll-rate methodology, we recognise collective impairment allowances on homogeneous groups of loans, including renegotiated loans, where there is historical evidence that there is a likelihood that loans in these groups will progress through the various stages of delinquency, and ultimately prove irrecoverable as a result of events occurring before the balance sheet date. This treatment applies irrespective of whether or not those loans are presented as impaired in accordance with our impaired loans disclosure convention. When we consider that there are additional risk factors inherent in the portfolios that may not be fully reflected in the statistical roll rates or historical experience, these risk factors are taken into account by adjusting the impairment allowances derived solely from statistical or historical experience.

In the corporate and commercial sectors, Renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessment. A distressed restructuring is classified as an impaired loan. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in renegotiated loans.

Renegotiated loans and advances to customers

	A 31 December 2014				A 31 December 2013			
(in millions of euros)	***Not past due nor impaired***	***Past due but not impaired***	***Impaired***	***Total***	*Not past due nor impaired*	*Past due but not impaired*	*Impaired*	*Total*
Residential Mortgages	**–**	**–**	**–**	**–**	–	–	–	–
Other personal lending	**–**	**–**	**–**	**–**	5	–	–	5
Corporate and commercial	**104**	**–**	**298**	**402**	285	–	189	474
Financial	**–**	**–**	**–**	**–**	–	–	–	–
Total renegotiated loans and advances	**104**	**–**	**298**	**402**	290	–	189	479
Impairment allowance on renegotiated loans and advances as a % of total gross loans	**–**	**–**	**–**	**1.09%**	–	–	–	1.36%

36 Risk management *(continued)*

d *Analysis of Asset-Backed Securities (ABS)*

Overall exposure

(in millions of euros)	**2014**	2013
Asset-backed securities	**–**	–
– Fair value through profit and loss	**–**	–
– Available for sale	**28**	44
– Held to maturity	**–**	–
– Loans and receivables	**190**	345
Total of Asset-Backed Securities	**218**	389

The table below shows the group's market risk exposure to Asset-Backed Securities.

	31.12.2014			
(in millions of euros)	***Gross principal*** [2]	***CDS gross protection*** [3]	***Net Principal exposure*** [4]	***Carrying amount*** [5]
– High grade[1]	**210**	**–**	**210**	**210**
– Rated C to A	**–**	**–**	**–**	**–**
– Not publicly rated	**14**	**–**	**14**	**8**
Total Asset-Backed Securities	**224**	**–**	**224**	**218**
Of which:				
– loans and advances to customers[6]	**190**	**–**	**190**	**190**
– available-for-sale portfolio	**34**	**–**	**34**	**28**

	31.12.2013			
(in millions of euros)	*Gross principal* [2]	*CDS gross protection* [3]	*Net Principal exposure* [4]	*Carrying amount* [5]
– High grade[1]	379	–	379	380
– Rated C to A	–	–	–	–
– Not publicly rated	20	–	20	9
Total Asset-Backed Securities	399	–	399	389
Of which:				
– loans and advances to customers[6]	345	–	345	345
– available-for-sale portfolio	54	–	54	44

1 *High grade assets rated AA or AAA.*
2 *The gross principal is the redemption amount on maturity or, in the case of an amortising instrument, the sum of the future redemption amounts through the residual life of the security.*
3 *A CDS is a credit default swap. CDS gross protection is the gross principal of the underlying instruments that is protected by CDSs.*
4 *Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from mono-line protection except where this protection is purchased with a CDS.*
5 *Carrying amount of the net principal exposure.*
6 *ABS held by HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments oHG. HSBC Trinkhaus Gesellschaft für Kapitalmarketinvestments oHG is a partnership created in 2010 and 90 per cent held by the HSBC France group, whose object is to invest in securitisation transactions structured by the HSBC Group and which holds mainly assets of German transferors.*

36 Risk management *(continued)*

(in millions of euros)	**31.12.2014** *Gross fair value movements other comprehensive income* [2]	*Reclassified from equity on impairment, disposal or payment* [3]	*AFS Impairment* [4]	31.12.2013 *Gross fair value movements other comprehensive income* [2]	*Reclassified from equity on impairment, disposal or payment* [3]	*AFS Impairment* [4]
– High grade[1]	**(1)**	**1**	**–**	2	(2)	–
– Rated C to A	**–**	**–**	**–**	–	–	–
– Not publicly rated	**1**	**1**	**–**	–	(1)	–
Total Asset Backed Securities	**–**	**2**	**–**	2	(3)	–

1 *High grade assets rated AA or AAA.*
2 *Fair value gains and losses on the net principal exposure recognised in equity at the end of the year as a result of the changes in fair value of available for sale assets.*
3 *Reclassification with respect to AFS assets, includes impairment losses recognised at the end of the year as a result of sale, disposal, accretion or payment.*
4 *Impairment losses recognised in the income statement with respect to the net principal amount of available-for-sale assets.*

2. Market risk management

The objective of the Group's market risk monitoring is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with its status as a major provider of financial products and services.

Market risk assessment tools

Value at Risk

One of the principal tools used by the Group to monitor and limit market risk exposure is VaR (Value at Risk). An internal model of HSBC France is used to calculate VaR.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Group, 99 per cent). HSBC France calculates VaR daily. The VaR model used by HSBC France, as for the Group, is based on historical simulation.

The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential variations in market prices are calculated with reference to market data from the last two years. The internal model of HSBC France was revalidated by the French regulator in 2007 for capital requirement calculations. Since January 2007, HSBC France has been calculating a one-day VaR.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

– the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
– the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
– the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
– VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

HSBC France recognises these limitations by supplementing its VaR limits by sensitivity limit structures. Additionally, stress testing scenarios are applied, both on individual portfolios and on HSBC France's consolidated positions. Stress scenarios are defined by a group of specialists in Paris (market heads, controllers) in accordance with Group rules and practices.

36 Risk management *(continued)*

VaR captures the traditional risk factors directly observable on a daily basis, such as exchange rates, interest rates, equity prices, etc., but does not take account of potential changes in more exotic factors such as correlations, basis risk, return to mean parameters, etc. Therefore, since 31 December 2007, HSBC France also calculates an additional VaR measure called 'Add-On VaR' in respect of these exotic risk factors.

In addition, since 31 December 2011, HSBC France reports a stressed VaR number. Similarly to VaR, stressed VaR is computed using historical simulations and a 99 per cent confidence interval. However, unlike VaR, stressed VaR considers a 10-day holding period, and is based on stressed historical data. Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

The one-day VaR on market exposures used in the computation of local capital requirement amounted to:

(in millions of euros)	*One-day VaR without Add-On perimeter*
At 31 December 2014	**3.48**
At 31 December 2013	11.95

(in millions of euros)	*One-day VaR without Add-On perimeter*		
	Average	*Minimum*	*Maximum*
At 31 December 2014	**7.68**	**2.78**	**13.25**
At 31 December 2013	13.25	9.96	16.46

It can be noted that VaR levels were reduced in 2014 compared to 2013. It results from the combination of two effects: observed market volatility was low in 2014 and exposures limited.

Unlike VaR, stressed VaR is calculated on a fixed one-year period of significant financial stress. The stressed VaR is also decreasing with regard to 2013, mostly because of the limited exposures in the books of trading.

The one-day equivalent stressed VaR amounted to:

(in millions of euros)	*One-day equivalent stressed VaR*
At 31 December 2014	**4.53**
At 31 December 2013	13.24

(in millions of euros)	*One-day equivalent stressed VaR*		
	Average	*Minimum*	*Maximum*
At 31 December 2014	**11.71**	**4.53**	**19.45**
At 31 December 2013	12.48	7.49	18.02

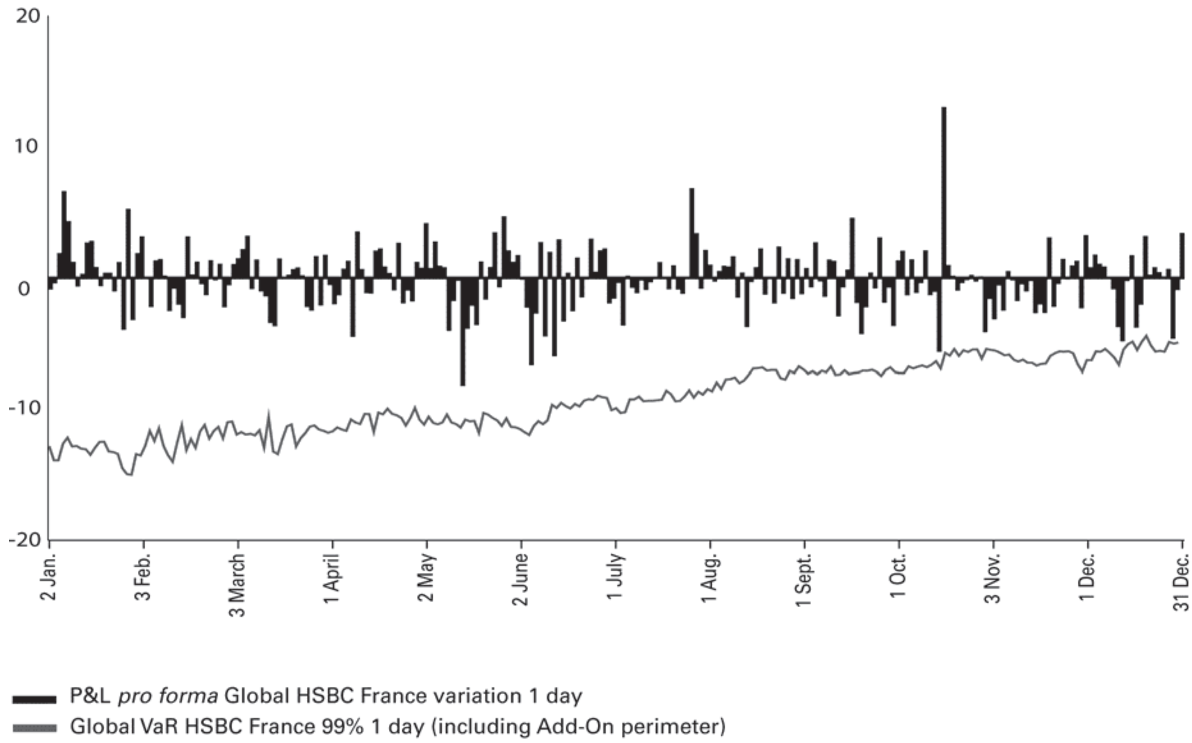
Backtesting

The model is back-tested by taking 99 per cent, one-day VaR figures and comparing them with daily *pro forma* results determined from changes in market prices assuming constant positions. Backtesting is carried out on a D+2 basis by business area and for all of the HSBC France group's market positions.

It allows the model to be validated, ensuring that the recorded result, in absolute terms, is lower than the calculated one-day VaR in 99 per cent of cases.

36 Risk management *(continued)*

***Pro forma* backtesting January 2014 – December 2014**
(in millions of euros)



The tightly managed low level of risky positions combined with low observed market volatility resulted in no backtesting exception in 2014.

Where certain financial instruments are carried on the Group's balance sheet at fair values, it is the Group policy that the valuation and the related price verification processes be subject to independent testing across the Group. Financial instruments which are accounted for on a fair value basis include assets held in the trading portfolio, financial instruments designated at fair value, obligations related to securities sold short, all derivative financial instruments and available-for-sale securities.

The determination of fair values is therefore a significant element in the reporting of the Group's Global Markets activities.

All significant valuation policies, and any changes thereto, must be approved by Senior Finance Management. The Group's governance of financial reporting requires that Financial Control Departments across the Group be independent of the risk-taking businesses, with the Finance functions having ultimate responsibility for the determination of fair values included in the financial statements, and for ensuring that the Group's policies and relevant accounting standards are adhered to.

Fair value and price verification control

Trading

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR and present value of a basis point, together with stress and sensitivity testing and concentration limits. These techniques quantify the impact on capital of defined market movements.

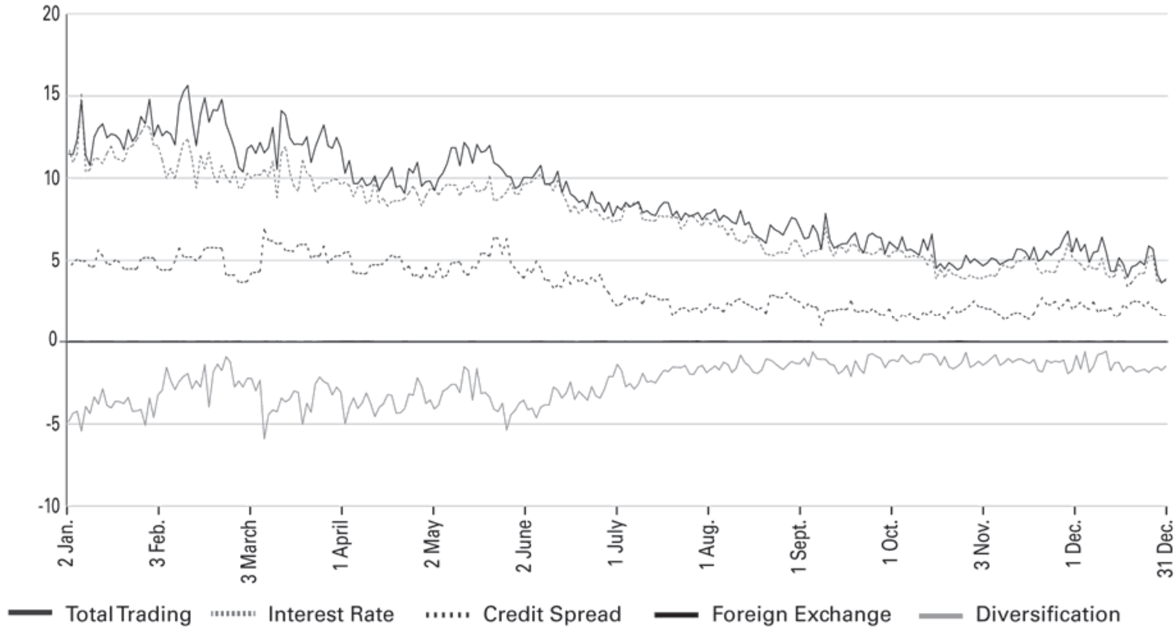
Other controls include restricting individual operations to trading within a list of permissible instruments authorised by *Wholesale and Market Risk*, and enforcing rigorous new product approval procedures. In particular, trading in the more complex derivative products is concentrated with appropriate levels of product expertise and robust system controls.

HSBC France's policy on hedging is to manage economic risk in the most appropriate way without regard as to whether hedge accounting is available, within limits regarding the potential volatility of reported earnings. Trading VaR is further analysed below by risk types, by positions taken with trading intent and by positions taken without trading intent:

36 Risk management *(continued)*

Total trading VaR by risk type

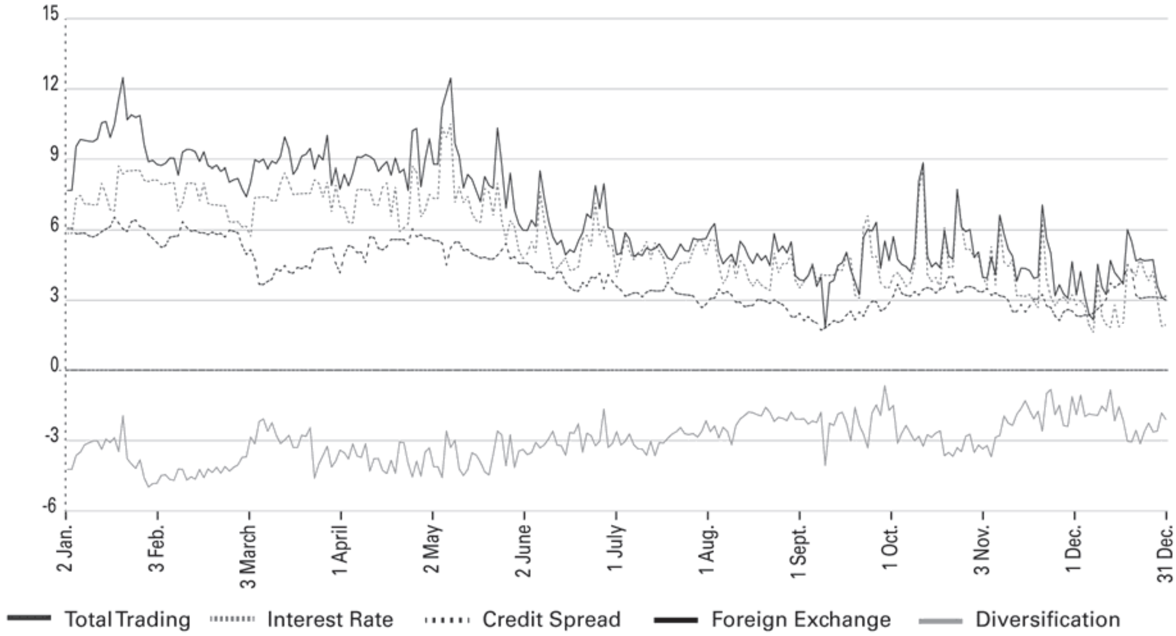
	Foreign exchange and commodity EUR$m	Interest rate EUR$m	Equity EUR$m	Credit spread EUR$m	Portfolio diversifi-cation EUR$m	Total EUR$m
At 31 December 2014	**0.02**	**3.72**	**–**	**1.59**	**(1.49)**	**3.84**
Average	**0.02**	**7.72**	**–**	**3.42**	**(2.38)**	**8.77**
Maximum	**0.04**	**15.14**	**–**	**6.91**	**(5.91)**	**15.64**
At 31 December 2013	0.02	11.86	–	4.46	(5.11)	11.48
Average	0.02	13.28	–	4.81	(3.22)	14.86
Maximum	0.07	16.35	–	8.33	(5.91)	18.26



Total accrual VaR by risk type

	Foreign exchange and commodity EUR$m	Interest rate EUR$m	Equity EUR$m	Credit spread EUR$m	Portfolio diversifi-cation EUR$m	Total EUR$m
At 31 December 2014	**–**	**3.12**	**–**	**1.71**	**(2.20)**	**2.64**
Average	**–**	**4.04**	**–**	**5.60**	**(2.99)**	**6.64**
Maximum	**–**	**6.55**	**–**	**10.52**	**(4.98)**	**12.48**
At 31 December 2013	–	6.07	–	5.85	(4.22)	7.42
Average	–	6.07	–	6.50	(2.72)	9.86
Maximum	–	9.31	–	7.93	(5.03)	13.44

36 Risk management *(continued)*



Sensitivity analysis

As of 31 December 2014, HSBC France Global Markets was mainly exposed to interest rate curve and spread risks (*i.e.* relative difference) coming from the swap and reference bond curves, denominated in euros, whether these notes are from sovereign eurozone government, supranational issuers, government agencies or issuers of covered bonds. In line with the risk reduction policy conducted since 2011, exposures to euro sovereign issuers, and in particular euro peripherals, remained closely monitored.

HSBC France Global Markets is also subject to sensitivities in terms of interest rate volatility and interest rate correlation, primarily in relation to EUR and USD.

All of these sensitivities are assessed and measured on a daily basis using standard conventional methods as used by the industry.

An aggregate representation is given by HSBC France Global Markets' one-day 99 per cent VaR, which amounted to EUR (3.48) million as at 31 December 2014.

In addition to its trading activities, HSBC France has developed since 2011 a non-trading accrual portfolio. Bonds held in this portfolio are hedged using swaps so as to reduce their exposure to interest rate moves. In addition, holdings are in high quality sovereign and quasi sovereign eurozone issuers.

Capital adequacy reporting

The internal model allows for the daily calculation of Value at Risk for all positions. It has been approved by the French *Autorité de contrôle prudentiel* for regulatory capital adequacy calculations. It covers the quasi-totality of market risks within HSBC France. Key risks not covered by the internal model are measured using the standardised approach devised by the Bank of International Settlements and transposed by Reglement CRBF 95-02.

36 Risk management *(continued)*

Capital requirements with respect to market risks break down as follows:

(in millions of euros)	**31.12.2014** *BIS*	*CAD*	31.12.2013 *BIS*	*CAD*
Internal Model VaR[1]:	**64.623**	**64.623**	145.170	145.170
Foreign exchange risk	**0.204**	**0.204**	0.140	0.140
General interest rate risk	**64.594**	**64.594**	145.160	145.160
General equities risk	**–**	**–**	–	–
Netting effect	**(0.176)**	**(0.176)**	(0.130)	(0.130)
Internal Model Stress VaR[1]:	**149.719**	**149.719**	135.660	135.660
Foreign exchange risk	**0.823**	**0.823**	0.310	0.310
General interest rate risk	**149.390**	**149.390**	135.680	135.680
General equities risk	**–**	**–**	–	–
Netting effect	**(0.493)**	**(0.493)**	(0.320)	(0.320)
Standards methods:	**72.732**	**72.732**	67.300	67.300
Foreign exchange risk	**–**	**–**	–	–
General interest rate risk	**23.057**	**23.057**	14.420	14.420
Specific interest rate risk	**49.675**	**49.675**	52.880	52.880
General equities risk	**–**	**–**	–	–
Specific equities risk	**–**	**–**	–	–
Total	**287.074**	**287.074**	348.130	348.130

1 *Including the Add-On perimeter.*

It can be observed that following regulatory changes (Basel 2.5), HSBC France cost of capital includes a stressed VaR item since 31 December 2011. Stressed VaR is a market risk indicator calibrated to historical data from a period of significant financial stress. It is computed considering a 10-day holding period and a 99 per cent one-tailed confidence interval.

3. Risk cover and regulatory ratios

Large exposures

The HSBC France group complies with the French *Autorité de contrôle prudentiel et de résolution*'s rules, which require the following:

– exposure to a group of clients deemed to have the same beneficial owner is limited to 20 per cent of net capital if the beneficial owner is investment grade and 15 per cent if non-investment grade;

At 31 December 2014, for HSBC France, 17 groups individually exceeded 10 per cent of the net capital (31 December 2013: 16 groups).

Loan loss provisions

At 31 December 2014, loan impairment represented 40.2 per cent (2013: 38.7 per cent) of the HSBC France group's total impaired and non-performing exposure.

Liquidity ratio

The HSBC France group's regulatory ratios reflect its good liquidity risk cover. The regulatory liquidity ratio, which measures the potential one-month liquidity gap, averaged 119.4 per cent in 2014 for HSBC France on an individual basis.

Basel III international solvency ratio

The HSBC France group's Basel III international solvency ratio was 14.1 per cent at 31 December 2014, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 14.1 per cent.

Under the Basel III definitions, total HSBC France group capital amounted to EUR 4,693 million at 31 December 2014, of which EUR 4,693 million was Tier 1 capital.

36 Risk management *(continued)*

The corresponding risk-weighted assets broke down as follows:

(in billions of euros)	**31.12.2014**	31.12.2013
Credit risks	**25.9**	21.6
Market risks	**3.6**	4.3
Operational risks	**3.8**	3.6
Additional requirement	**–**	2.8
Total	**33.3**	32.3

Commentaries related to the risk-weighted assets are disclosed in the Risk management section on page 98.

4. Special Purpose Entities

The group enters into certain transactions with customers in the ordinary course of business which involve the establishment of Special Purpose Entities (SPEs), some of which have been included in the group's consolidated balance sheet.

Transactions involving use of SPEs are authorised centrally upon establishment to ensure appropriate purpose and governance. The activities of SPEs administered by the group are closely monitored by Senior Management. The use of SPEs is not a significant part of the group's activities and the group is not reliant on the use of SPEs for any major part of its business operations or profitability.

Vehicles sponsored by the group

The group re-assesses the required consolidation accounting tests whenever there is a change in the substance of a relationship between the group and an SPE, for example, when there is a change in the group's involvement or in the governing rules, in the contractual arrangements or in the capital structure of the SPE.

Money market funds

The group has established and manages a number of money market funds which provide customers with tailored investment opportunities. These funds have narrow and well-defined objectives and typically the group does not aim to have any holdings in the SPEs large enough to represent the majority of the risks and rewards of ownership.

Asset finance transactions

HSBC France's Asset and Structured Finance (ASF) business specialises in leasing and arranging finance for aircraft and other physical assets as well as financial assets, which is customary to ring-fence through the use of SPEs, and in structured loans and deposits where SPEs introduce cost efficiencies. HSBC France consolidates these SPEs where the substance of the relationship indicates that HSBC France controls the SPE

5. Risk management of insurance operations

This section provides disclosures on the risks arising from insurance manufacturing operations including financial risks such as market risk, credit risk and liquidity risk, and insurance risk.

Risks in these operations are managed within the insurance entity using methodologies and processes appropriate to the insurance activities, but remain subject to oversight at HSBC Group Insurance level.

HSBC France's bancassurance model

We operate an integrated bancassurance model which provides wealth and protection insurance products principally for customers with whom the group has a banking relationship. Insurance products are sold through all global businesses, predominantly by RBWM and CMB, through branches and direct channels.

The insurance contracts HSBC France sells relate to the underlying needs of the HSBC Group's banking customers, which it can identify from its point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts. By focusing largely on personal and SME lines of business, the HSBC Group Insurance is able to optimise volumes and diversify individual insurance risks.

Where HSBC France does not have the risk appetite or operational scale to be an effective manufacturer, a handful of leading external insurance companies are engaged in order to provide insurance products to the HSBC Group's customers through its banking network and direct channels.

HSBC Assurances Vie sets its own control procedures in addition to complying with guidelines issued by the HSBC Group Insurance. Country level oversight is exercised by the subsidiary's local Risk Management Committee.

36 Risk management *(continued)*

In addition, local subsidiary's ALCO monitors and reviews the duration and cash flow matching of insurance assets and liabilities.

All insurance products, whether manufactured internally or by a third party, are subjected to a product approval process prior to introduction.

Financial risks of insurance operations

The HSBC France group's insurance businesses are exposed to a range of financial risks which can be categorised into:

- market risk: risks arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;
- credit risk: risk of financial loss following the default of third parties to meet their obligations; and
- liquidity risk: risk of not being able to make payments to policyholders as they fall due as a result of insufficient assets that can be realised as cash.

Regulatory requirements prescribe the type, quality and concentration of assets that the HSBC Group Insurance must maintain to meet insurance liabilities. These requirements complement the HSBC Group-wide policies.

The following table analyses the assets held in HSBC France's insurance manufacturing company by type of contract, and provides a view of the exposure to financial risk. For linked contracts, which pay benefits to policyholders which are determined by reference to the value of the investments supporting the policies, HSBC Group Insurance typically designates assets at fair value; for non-linked contracts, the classification of the assets is driven by the nature of the underlying contract.

Financial assets held by HSBC Assurances Vie (France):

	31.12.2014			
(in millions of euros)	***Linked contracts***	***Non-linked contracts***	***Other assets***	***Total***
Financial assets designated at fair value	**–**	**–**	**–**	**–**
– interest rate contracts	**–**	**907**	**–**	**907**
– equity contracts	**67**	**4,770**	**409**	**5,247**
	67	**5,678**	**409**	**6,154**
Financial investments – available-for-sale	**–**	**–**	**–**	**–**
– debt securities	**–**	**13,367**	**914**	**14,281**
– equity contracts	**–**	**–**	**–**	**–**
	–	**13,367**	**914**	**14,281**
Derivatives	**–**	**83**	**57**	**140**
Other financial assets	**–**	**941**	**(174)**	**767**
	67	**20,069**	**1,206**	**21,342**

	31.12.2013			
(in millions of euros)	*Linked contracts*	*Non-linked contracts*	*Other assets*	*Total*
Financial assets designated at fair value	–	–	–	–
– interest rate contracts	–	1,118	–	1,118
– equity contracts	70	4,603	445	5,118
	70	5,721	445	6,236
Financial investments – available-for-sale	–	–	–	–
– debt securities	–	12,840	980	13,820
– equity contracts	–	–	–	–
	–	12,840	980	13,820
Derivatives	–	156	36	192
Other financial assets	–	537	(206)	331
	70	19,254	1,255	20,579

Approximately 71 per cent of financial assets were invested in debt securities at 31 December 2014, with 25 per cent invested in equity securities.

36 Risk management *(continued)*

In life linked insurance, premium income less charges levied is invested in a portfolio of assets. HSBC Assurances Vie (France) manages the financial risks of this product on behalf of the policyholders by holding appropriate assets in segregated funds or portfolios to which the liabilities are linked. These assets represented a non significant part of the total financial assets of HSBC Assurances Vie (France) at the end of 2014.

The remaining financial risks are managed either solely on behalf of the shareholder, or jointly on behalf of the shareholder and policyholders where discretionary participation features exist.

Market risk of insurance operations

Market risk arises when mismatches occur between product liabilities and the investment assets which back them. For example, mismatches between asset and liability yields and maturities give rise to interest rate risk.

The main features of products manufactured by the group's insurance manufacturing company which generate market risk, and the market risk to which these features expose the company, are discussed below.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Interest rate risk arises to the extent that yields on the assets supporting guaranteed investment returns are lower than the investment returns implied by the guarantees payable to policyholders.

The income from the insurance and investment contracts with discretionary participation is primarily invested in bonds; a fraction is allocated to other asset classes in order to provide customers with an enhanced potential yield. The subsidiaries holding such type of product portfolio are at risk of falling market prices when discretionary bonuses cannot be fully taken into account. An increase in market volatility may also result in an increase in the value of the collateral for the insured.

Long-term insurance and investment products typically permit the policyholder to surrender the policy or let it lapse at any time. When the surrender value is not linked to the value realised from the sale of the associated supporting assets, the subsidiary is exposed to market risk. In particular, when customers seek to surrender their policies when asset values are falling, assets may have to be sold at a loss to fund redemptions.

For unit-linked contracts, market risk is substantially borne by the policyholder, but market risk exposure typically remains as fees earned for management are related to the market value of the linked assets.

Each insurance manufacturing subsidiary manages market risk by using some or all of the following techniques:

- for products with DPF, adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder;
- structuring asset portfolios to support liability cash flows;
- using derivatives, to a limited extent, to protect against adverse market movements or better match liability cash flows;
- for new products with investment guarantees, considering the cost when determining the level of premiums or the price structure;
- periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked to savings and investment products;
- including features designed to mitigate market risk in new products;
- exiting, to the extent possible, investment portfolios whose risk is considered unacceptable; and
- repricing of premiums charged to policyholders.

The French insurance manufacturing company monitors exposures against mandated limits regularly and reports these quarterly to Group Insurance. Exposures are aggregated and reported on a quarterly basis to senior risk management forums in Group Insurance.

Standard measures for quantifying market risks are as follows:

- for interest rate risk, the sensitivities of the net present values of asset and expected liability cash flows, in total and by currency, to a one basis point parallel upward shift in the discount curves used to calculate the net present values;
- for equity price risk, the total market value of equity holdings and the market value of equity holdings by region and country;

The standard measures are relatively straightforward to calculate and aggregate, but they have limitations. The most significant one is that a parallel shift in yield curves of one basis point does not capture the non-linear relationships between the values of certain assets and liabilities and interest rates. Non-linearity arises, for example, from investment guarantees and product features which enable policyholders to surrender their policies. The Group bears the shortfall if the yields on investments held to support contracts with guaranteed benefits are less than the investment returns implied by the guaranteed benefits.

36 Risk management *(continued)*

The Group recognises these limitations and augments its standard measures with stress tests which examine the effect of a range of market rate scenarios on the aggregate annual profits and total equity of the insurance manufacturing companies after taking into consideration tax and accounting treatments where material and relevant. The results of these stress tests are reported to the HSBC Group Insurance and risk committees every quarter.

The following table illustrates the effect of selected interest rates, equity price and credit spread scenarios on the profits for the year and total equity of insurance manufacturing subsidiaries. Where appropriate, the impact of the stress on the present value of the in-force long-term insurance business asset ('PVIF') is included in the results of the sensitivity tests. The relationship between the profit and total equity and the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities are stated before allowance for the effect of management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

Sensitivity of risk factors related to the Insurance Company of the Group

	Effect on total equity	
(in millions of euros)	**31.12.2014**	31.12.2013
+ 100 basis points parallel shift in yield curves	**60**	(13)
– 100 basis points parallel shift in yield curves	**(245)**	(23)
10 per cent increase in equity prices	**10**	8
10 per cent decrease in equity prices	**(13)**	(9)
50 basis points increase in credit spread	**33**	11
50 basis points decrease in credit spread	**(42)**	(22)

The effects of +/-100 basis points parallel shifts in yield curves have increased from 2013 to 2014, driven mainly by falling yields and a flattening of the yield curve in France during 2014. In the low yield environment the projected cost of options and guarantees described above is particularly sensitive to yield curve movements.

Credit risk of insurance operations

Credit risk can give rise to losses through default and can lead to volatility in income statement and balance sheet figures through movements in credit spreads, principally on the EUR 13.4 billion non-linked bond portfolio.

The sensitivity is calculated using simplified assumptions based on a one-day movement in credit spreads over a two-year period. A confidence level of 99 per cent, consistent with the Group's VAR, has been applied.

Management of the French insurance manufacturing company is responsible for the credit risk, quality and performance of their investment portfolios. The assessment of creditworthiness of issuers and counterparties is based primarily upon internationally recognized credit ratings and other publicly available information.

Investment credit exposures are monitored against limits by the local insurance manufacturing subsidiaries, and are aggregated and reported to HSBC Group Insurance Credit Risk and HSBC Group Credit Risk. Stress testing is performed by HSBC Group Insurance on the investment credit exposures using credit spread sensitivities and default probabilities. A number of tools are used to manage and monitor credit risk. These include a Credit Watch Report which contains a watch list of investments with current credit concerns and is circulated fortnightly to Senior Management in HSBC Group Insurance and to the individual Country Chief Risk Officers to identity investments which may be at greater risk of future impairment.

Credit quality

The following table presents an analysis of treasury bills, other eligible bills and debt securities within the French insurance business by measures of credit quality. The five credit quality classifications are defined on page 196.

Only assets supporting liabilities under non-linked insurance, investment contracts and shareholders' funds are included in the table, as financial risk on assets supporting linked liabilities is predominantly borne by the policyholder. 86 per cent of the assets included in the table are invested in investments rated as 'Strong'.

36 Risk management *(continued)*

Treasury bills, other eligible bills and debt securities in the French insurance manufacturing company

	31.12.2014		
	Strong	***Good/ Satisfactory***	***Total*** [2]
Financial assets designated at fair value[1]	**816**	**92**	**907**
– treasury and other eligible bills	–	–	–
– debt securities	816	92	907
Financial investments available for sale	**12,236**	**2,046**	**14,281**
– treasury and other eligible bills	–	–	–
– debt securities	12,236	2,046	14,281
	13,052	**2,138**	**15,188**

1 *Impairment is not measured for debt securities designated at fair value, as assets in such portfolios are managed according to movements in fair value, and the fair value movement is taken directly through the income statement.*
2 *The total is the maximum exposure to credit risk on the treasury bills, other eligible bills and debt securities in the group's insurance companies.*

	31.12.2013		
	Strong	*Good/ Satisfactory*	*Total* [2]
Financial assets designated at fair value[1]	1,034	84	1,118
– treasury and other eligible bills	–	–	–
– debt securities	1,034	84	1,118
Financial investments available for sale	11,844	1,976	13,820
– treasury and other eligible bills	–	–	–
– debt securities	11,844	1,976	13,820
	12,878	2,060	14,938

1 *Impairment is not measured for debt securities designated at fair value, as assets in such portfolios are managed according to movements in fair value, and the fair value movement is taken directly through the income statement.*
2 *The total is the maximum exposure to credit risk on the treasury bills, other eligible bills and debt securities in the French insurance companies.*

Liquidity risk of insurance operations

Every quarter, HSBC Assurances Vie is required to complete and submit liquidity risk reports to the HSBC Group Insurance for collation and review. Liquidity risk is assessed in these reports by measuring changes in expected cumulative net cash flows under a series of stress scenarios designed to determine the effect of reducing expected available liquidity and accelerating cash outflows. This is achieved, for example, by assuming new business or renewals are lower, and surrenders or lapses are greater, than expected.

The following tables show the expected undiscounted cash flows for insurance contract liabilities. The remaining contractual maturity of investment contract liabilities is all undated as in most cases, policyholders have the option to terminate their contracts at any time.

The profile of the expected maturity of the insurance contracts at 31 December 2014 remained comparable with 2013.

Expected maturity of insurance contract liabilities

	Expected cash flows (undiscounted)				
31 December 2014 (in millions of euros)	***Within 1 year***	***1-5 years***	***5-15 years***	***Over 15 years***	***Total***
Non-linked insurance[1]	**3**	**76**	**23**	**17**	**119**
Linked life insurance[1]	**–**	**48**	**–**	**–**	**48**
Total	**–**	**167**	**–**	**–**	**167**

1 *Non-linked insurance includes remaining non-life business.*

36 Risk management *(continued)*

31 December 2013 (in millions of euros)	Expected cash flows (undiscounted) *Within 1 year*	*1-5 years*	*5-15 years*	*Over 15 years*	*Total*
Non-linked insurance[1]	–	57	–	58	115
Linked life insurance[1]	–	51	–	–	51
Total	–	108	–	58	166

1 *Non-linked insurance includes remaining non-life business.*

Insurance risk

Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer (HSBC Group Insurance). Insurance risk is principally measured in terms of liabilities under the contracts.

The insurance risk profile of the HSBC French life insurance manufacturing business has not changed materially during 2014 despite the increase in liabilities to policyholders on these contracts to EUR 17.9 billion (2013: EUR 19.2 billion). This growth in liabilities largely resulted from market value gains on underlying financial assets in addition to new business generated during 2014.

A principal risk faced by the HSBC French Insurance business is that, over time, the cost of acquiring and administering a contract, claims and benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates and, if the policy has a savings element, the performance of the assets held to support the liabilities.

The following tables analyse the HSBC French insurance risk exposures by type of business.

Analysis of life insurance risk – liabilities to policyholders

(in millions of euros)	**31.12.2014**	31.12.2013
Insurance contracts with DPF[1]	**–**	–
Credit life	**46**	55
Annuities	**58**	56
Term assurance and other long-term contracts	**15**	4
Non-life insurance	**–**	–
Total non-linked insurance[2]	**119**	115
Life (linked)	**67**	51
Investment contracts with DPF[1,3]	**20,636**	19,188
Liabilities under insurance contracts	**20,822**	19,354

1 *Insurance contracts and investment contracts with discretionary participation features ('DPF') give policyholders the contractual right to receive, as a supplement to their guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, but whose amount or timing is contractually at the discretion of the group. These additional benefits are contractually based on the performance of a specified pool of contracts or assets, or the profit of the company issuing the contracts.*
2 *Non-linked insurance includes remaining non-life business.*
3 *Although investment contracts with DPF are financial investments, the Group continues to account for them as insurance contracts as permitted by IFRS 4.*

Sensitivities to non-economic assumptions

The Group's life insurance business is accounted for using the embedded value approach which, *inter alia*, provides a risk and valuation framework. The sensitivity of the present value of the in-force ('PVIF') long-term asset to changes in economic and non-economic assumptions is described in Note 18.

Please note that the value approach simulation used has been reviewed by several external auditors which have confirmed that this one is compliant with market standards.

Consolidated financial statements (continued)

37 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

(in millions of euros)	Gross amounts of recognised financial assets	Gross amounts offset in the balance sheet	Amounts presented in the balance sheet	Amounts not offset in the balance sheet: Financial instruments	Amounts not offset in the balance sheet: Non-Cash collateral	Amounts not offset in the balance sheet: Cash collateral received	Net amount
At 31 December 2014							
Derivatives	**142,228**	**(71,661)**	**70,567**	**59,943**	**146**	**8,103**	**2,520**
Reverse repurchase, securities borrowing and similar agreements	**44,237**	**(29,337)**	**14,900**	**6,268**	**8,219**	**413**	**–**
Classified as:							
– trading assets	**104**	**–**	**104**	**–**	**104**	**–**	**–**
– non-trading assets	**44,133**	**(29,337)**	**14,796**	**6,268**	**8,115**	**413**	**–**
Loans and advances excluding reverse repos	**1,181**	**(138)**	**1,043**	**–**	**–**	**–**	**1,043**
– to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– to customers	**1,181**	**(138)**	**1,043**	**–**	**–**	**–**	**1,043**
	187,646	**(101,136)**	**86,510**	**66,066**	**8,365**	**8,516**	**3,563**
At 31 December 2013							
Derivatives	126,939	(67,433)	59,506	48,995	699	8,819	993
Reverse repurchase, securities borrowing and similar agreements	53,244	(25,128)	28,116	12,202	15,875	39	–
Classified as:							
– trading assets	105	–	–	105	105	–	–
– non-trading assets	53,139	(25,128)	28,011	12,202	15,770	39	–
Loans and advances excluding reverse repos	1,041	(157)	884	–	–	–	884
– to banks	–	–	–	–	–	–	–
– to customers	1,041	(157)	884	–	–	–	884
	181,224	(92,718)	88,506	61,197	16,574	8,858	1,877

37 Offsetting of financial assets and financial liabilities *(continued)*

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(in millions of euros)	*Gross amounts of recognised financial liabilities*	*Gross amounts offset in the balance sheet*	*Amounts presented in the balance sheet*	*Amounts not offset in the balance sheet*			
				Financial instruments	*Non-Cash collateral*	*Cash collateral pledged*	*Net amount*
At 31 December 2014							
Derivatives	**141,244**	**(71,661)**	**69,583**	**59,816**	**1,292**	**7,720**	**755**
Repurchase, securities lending and similar agreements	**47,954**	**(29,337)**	**18,617**	**6,268**	**12,233**	**116**	**–**
Classified as:							
– trading liabilities	**2,680**	**–**	**2,680**	**–**	**2,680**	**–**	**–**
– non-trading liabilities	**45,274**	**(29,337)**	**15,937**	**6,268**	**9,553**	**116**	**–**
Deposits by banks excluding repos	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Customer accounts excluding repos	**138**	**(138)**	**–**	**–**	**–**	**–**	**–**
	189,336	**(101,136)**	**88,200**	**66,084**	**13,525**	**7,836**	**755**
At 31 December 2013							
Derivatives	124,024	(67,433)	56,591	49,507	187	5,250	1,647
Repurchase, securities lending and similar agreements	61,224	(25,128)	36,096	23,230	12,718	148	–
Classified as:							
– trading liabilities	2,571	–	2,571	–	2,571	–	–
– non-trading liabilities	58,653	(25,128)	33,525	23,230	10,147	148	–
Deposits by banks excluding repos	–	–	–	–	–	–	–
Customer accounts excluding repos	157	(157)	–	–	–	–	–
	185,405	(92,718)	92,687	72,737	12,905	5,398	1,647

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the balance sheet relate to transactions where:

– the counterparty has an offsetting exposure with HSBC and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

– cash and non-cash collateral received/pledged in respect of the transactions described above.

HSBC France offsets certain loans and advances to customers and customer accounts when the offset criteria are met and the amounts presented above represent this subset of the total amounts recognised in the balance sheet.
Of this subset, the loans and advances to customers and customer accounts included in amounts not set off in the balance sheet primarily relate to transactions where the counterparty has an offsetting exposure with HSBC and an agreement is in place with the right of offset but the offset criteria are otherwise not satisfied.

Consolidated financial statements (continued)

38 Contingent liabilities, contractual commitments and guarantees

a *Contingent liabilities and commitments*

(in millions of euros)	**31.12.2014**	31.12.2013
Contract amounts		
Guarantees and other contingent liabilities		
Guarantees	**3,933**	4,260
Other contingent liabilities	**–**	–
	3,933	4,260
Commitments		
Documentary credits and short-term trade-related transactions	**557**	631
Undrawn formal standby facilities, credit lines and other commitments to lend		
– 1 year and under[1]	**9,222**	9,266
– over 1 year	**18,062**	16,386
	27,841	26,383

1 *In order to comply with Group's disclosure, unconditionally cancellable committed facilities have been included in 'undrawn formal standby facilities, credit lines and other commitments to lend' in 2013.*

The above table discloses the nominal principal amounts of third-party off-balance sheet transactions. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default.

As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of these nominal principal amounts is not representative of future liquidity requirements.

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the group's annual credit review process.

The total of the nominal principal amounts is not representative of future liquidity requirements.

b *Guarantees*

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the group. These guarantees are generally provided in the normal course of the group's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the group could be required to make at 31 December were as follows:

(in millions of euros)	**31.12.2014**	31.12.2013
Guarantee type		
Financial guarantees[1]	**704**	610
Credit-related substitutes[2]	**1,626**	1,834
Other guarantees[3]	**1,603**	1,816
Total	**3,933**	4,260

1 *Financial guarantees include undertakings to fulfil the obligations of customers or group entities, should the obligated party fail to do so. The inter-company financial guarantees include a specific guarantee related to debt issued by the group for the benefit of other entities of the group and with respect to regulatory requirements. Financial guarantees also include stand-by letters of credit, which are financial guarantees given irrevocable obligations on the part of HSBC France to pay a third party when a customer fails to meet a commitment.*

2 *Credit-related substitutes include performance bonds and stand-by letters of credit related to particular transactions which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.*

3 *Other guarantees include bid bonds and other transaction-related guarantees which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.*

38 Contingent liabilities, contractual commitments and guarantees *(continued)*

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures.

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

Provisions with respect to the group's obligations under outstanding guarantees

(in millions of euros)	**31.12.2014**	31.12.2013
Acceptances and endorsements	**–**	–
Other items	**4**	4

39 Lease commitments

a *Accounting policy*

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where HSBC France is a lessor under finance leases, the amounts due under the leases, after deduction of unearned charges, are included in 'Loans and advances to banks' or 'Loans and advances to customers' as appropriate. Finance income receivable is recognised over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Where HSBC France is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is included in 'Other liabilities'.

The finance lease and corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised over the periods of the leases based on the interest rates implicit in the leases so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. Where HSBC France is the lessor, the assets subject to the operating leases are included in 'Property, plant and equipment' and accounted for accordingly. Impairment losses are recognised to the extent that the carrying value of equipment is impaired through residual values not being fully recoverable. Where HSBC France is the lessee, the leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'Other operating income' respectively.

b *Finance and operating lease commitments*

As at 31 December 2014, HSBC France's operating lease commitments amount to EUR 16 million.

There were no future minimum sublease payments expected to be received under non-cancellable subleases.

c *Finance lease receivables*

HSBC leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Lessees may participate in any sales proceeds achieved. Lease rentals arising during the lease terms will either be fixed in quantum or be varied to reflect changes in, for example, tax or interest rates. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

39 Lease commitments *(continued)*

(in millions of euros)	**31.12.2014** *Total future minimum payments*	*Unearned finance income*	*Present value*	31.12.2013 *Total future minimum payments*	*Unearned finance income*	*Present value*
Finance lease receivables:						
– no later than one year	**458**	**(74)**	**384**	497	(51)	446
– later than one year and no later than five years	**1,670**	**(214)**	**1,456**	1,386	(179)	1,207
– later than five years	**1,099**	**(129)**	**970**	976	(177)	799
Total	**3,227**	**(417)**	**2,810**	2,859	(407)	2,452

At 31 December 2014, unguaranteed residual values of EUR 131 million (2013: EUR 149 million) had been accrued, and there was no accumulated allowance for uncollectible minimum lease payments receivable.

40 Legal proceedings and regulatory matters related to HSBC Group entities

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 in the risk factors of the 2014 Registration Document, HSBC France considers that none of these matters is significant. HSBC France recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2014.

Anti-money laundering and sanctions-related

In December 2012, HSBC Holdings plc (‘HSBC Holdings’ or ‘HSBC’), the bank’s ultimate parent company, HSBC North America Holdings (‘HNAH’) and HSBC Bank USA, N.A. (‘HBUS’) entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act (‘BSA’), Anti-Money Laundering (‘AML’) and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with the US Department of Justice (‘DoJ’), the US Attorney’s Office for the Eastern District of New York, and the US Attorney’s Office for the Northern District of West Virginia (the ‘US DPA’). HSBC Holdings entered into a two-year deferred prosecution agreement with the New York County District Attorney (‘DANY’) (the ‘DANY DPA’). HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the Federal Reserve Board (‘FRB’).

In addition, HSBC Bank USA entered into a monetary penalty consent order with FinCEN and a separate monetary penalty order with the Office of the Comptroller of the Currency (‘OCC’). HSBC Bank USA also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC’s then most recent report of examination and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise wide compliance program.

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control (‘OFAC’) regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK Financial Services Authority, now a Financial Conduct Authority (‘FCA’) Direction, to comply with certain forward-looking AML- and sanctions-related obligations.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling USD 1.9 billion to US authorities. Under these agreements, HSBC Holdings has also certain obligations to ensure that entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. Steps continue to be taken to implement ongoing obligations under the US DPA, FCA direction, and other settlement agreements.

On 1 July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of the same. Under the agreements with the DoJ, FCA, and the FRB, an independent monitor (who is, for FCA purposes, a ‘skilled person’ under Section 166 of the Financial Services and Markets Act) is evaluating HSBC’s progress in fully implementing its obligations under the agreements and will produce regular assessments of the effectiveness of HSBC’s Compliance function. Michael Cherkasky began work as the independent monitor on 22 July 2013.

40 Legal proceedings and regulatory matters related to HSBC Group entities *(continued)*

HSBC Holdings fulfilled all of the requirements imposed by the DANY DPA which expired by its term at the end of the two year period of that agreement in December 2014. If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DoJ charges against those entities will be dismissed at the end of the five-year period of that agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to the matters that are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA.

The settlement with US and UK authorities has resulted in private litigation, and, does not preclude further private litigation relating to HSBC's compliance with applicable AML, BSA and sanctions laws or other regulatory or law enforcement actions for AML/BSA or sanctions matters not covered by the various agreements.

Investigations and reviews into the setting of London interbank offered rates, European interbank offered rates and other benchmark interest and foreign exchange rates

Various regulators and competition and enforcement authorities around the world including in the United Kingdom (UK), the United States of America (US), Canada, 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 London interbank offered rates ('Libor'), European interbank offered rates ('Euribor') and other benchmark interest and foreign exchange rates. As certain HSBC entities are members of such panels, HSBC and/or its subsidiaries (including HSBC France whose involvement is limited to the extent that it is a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews. On 4 December 2013, the European Commission (the 'Commission') announced that it had imposed fines on eight financial institutions under its cartel settlement procedure for their participation in illegal activity related to euro interest rate derivatives and/or Yen interest rate derivatives. Although HSBC was not one of the financial institutions fined, the Commission announced that it had opened proceedings against HSBC entities (HSBC Holdings, HSBC Bank Plc and HSBC France) in connection with its Euribor-related investigation of Euro interest rate derivatives only. This investigation will continue under the standard Commission cartel procedure. On 21 May 2014, these HSBC entities received a Statement of Objections from the Commission, alleging anticompetitive practices in connection with the pricing of euro interest rate derivatives. The Statement of Objections sets out the Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC responded partially to the Commission's Statement of Objections on 14 November 2014. HSBC will have the possibility to complete its response on a date to be decided upon by the Commission, once various procedural issues are resolved.

As for each of these ongoing regulatory investigations, reviews and proceedings, there is a high degree of uncertainty as to the terms on which they will be resolved and the timing of such resolutions, including the amounts of fines and/or penalties. As matters progress, it is possible that the fines and/or penalties imposed could be significant.

In November 2013, HSBC and other panel banks were also named as defendants in a putative class action filed in the US District Court fot the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the CEA, and state law. On 2 May 2014, the plaintiffs filed a second amended complaint. On 3 October 2014, the plaintiffs filed a third amended complaint. HSBC intends to respond to the third amended complaint after the expiration of the Court ordered stay, currently in force until May 2015.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of such private lawsuits, including the timing and potential impact on HSBC.

Credit default swap regulatory investigation and litigation

In July 2013, various HSBC entities, including HSBC France, received a Statement of Objections from the European Commission (the 'Commission') relating to its ongoing investigation of alleged anti-competitive activity by a number of market participants in the credit derivatives market between 2006 and 2009. The Statement of Objections sets out the European Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC has submitted a response to the Commission and with reference to HSBC France, the point made was that there was no real nexus between the Commission's alleged case and HSBC France's activities. HSBC attended an oral hearing in May 2014 at which the other defendants were also present. Following the oral hearing the Commission decided to conduct a further phase of investigation before deciding whether or how to proceed with the case. HSBC is cooperating with this further investigation.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or impact on HSBC.

41 Structured entities

a *General policy*

A structured entity is an entity created for specific scheme. Thus, these entities have a limited scope of activities and a well-defined purpose.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 1.

HSBC France is involved directly or indirectly with structured entities mainly through securitisation of financial assets, conduits and investment funds.

Group arrangements that involve structured entities are authorised centrally. The activities of structured entities administered by the group are closely monitored by senior management. The group HSBC France has involvement with both consolidated and unconsolidated structured entities, which may be established by the group or by a third party, detailed below.

Securitisations

HSBC France uses structured entities to securitise customer loans and advances in order to diversify its sources of funding. The loans and advances are transferred by HSBC France to the structured entities for cash, and in return, the structured entities issue debt securities to investors.

HSBC France Group managed funds

The group HSBC France has established a number of money market, and non-money market funds in order to offer its customer investment opportunities. When HSBC France is deemed to be acting as principal rather than agent in its role as investment manager, HSBC France will control and hence consolidate these funds.

Non-HSBC France Group managed funds

HSBC France purchases and holds unity of third party managed funds in order to facilitate both business and customer needs.

HSBC France sponsored structured entities

The group is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together the relevant counterparties to a structured transaction. The group is not considered as a sponsor if the only involvement is to provide services at arm's length and it ceases to be a sponsor once it has no ongoing involvement with that structured entity.

Other

HSBC France also enters into a number of transactions in the normal course of business, including asset and structured finance transactions where it has control of the structured entity.

b *Consolidated structured entities by HSBC France*

Total assets of the group HSBC France's consolidated structured entities, split by entity type.

(in millions of euros)	*Securiti-sations*	*The HSBC France Group managed funds*	*Other*	*Total*
At 31 December2014	**243**	**2,414**	**4,004**	**6,661**
At 31 December 2013	–	2,806	3,323	6,129

41 Structured entities *(continued)*

c *Unconsolidated structured entities by HSBC France*

The term ‘unconsolidated structured entities’ refers to all structured entities that are not controlled by the group. It includes interests in structured entities that are not consolidated. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which the group has an interest at the reporting date, as well as the group’s maximum exposure to loss in relation to those interests.

The maximum exposure to loss from the group’s interests in unconsolidated structured entities represents the maximum loss that the group could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred. They are contingent in nature, and may arise as a result of the provision of liquidity facilities and any other funding commitments provided by the group to unconsolidated structured entities.

- For commitments and guarantees, and written credit default swaps, the maximum exposure of the Group HSBC France to loss is the notional amount of potential future losses.
- For retained and purchased investments in and loans to unconsolidated structured entities, the maximum exposure of the Group HSBC France loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate the group’s exposure to loss.

Consolidated financial statements (continued)

41 Structured entities *(continued)*

(in millions of euros)	*Group managed funds*	*Non-group managed funds*	*Other*	*Total*
At 31 December 2014				
Total assets	**31,167**	**241,173**	**3,077**	**275,416**
group interest – assets:				
Cash	–	–	–	–
Trading assets	–	–	–	–
Financial assets designated at fair value	**2,468**	**966**		**3,434**
Derivatives	–	–	**144**	**144**
Loans and advances to customers	–	–	**10**	**10**
Financial investments	**12**	–	**59**	**71**
Other assets	**263**	**69**	–	**332**
Total assets in relation to the group's interests in the unconsolidated structured entities	**2,743**	**1,035**	**213**	**3,991**
group interest – liabilities				
Customer accounts	–	–	–	–
Total liabilities in relation to the group's interests in the unconsolidated structured entities	–	–	**(16)**	**(16)**
The group's maximum exposure	**2,743**	**1,035**	**197**	**3,975**
Total income from the group interests[1]	–	**12**	**(7)**	**5**
At 31 December 2013				
Total assets	39,050	174,554	4,319	217,922
group interest – assets:				
Cash	–	–	–	–
Trading assets	–	–	–	–
Financial assets designated at fair value	2,310	593	–	2,903
Derivatives	–	–	119	119
Loans and advances to customers	–	–	238	238
Financial investments	4	90	48	143
Other assets	–	–	–	–
Total assets in relation to the group's interests in the unconsolidated structured entities	2,314	683	406	3,403
group interest – liabilities				
Customer accounts	–	–	(7)	(7)
Total liabilities in relation to the group's interests in the unconsolidated structured entities	–	–	(7)	(7)
The group's maximum exposure	2,314	683	399	3,396
Total income from the group interests[1]	–	5	–	5

1 *Income includes recurring and non-recurring fees, interest, dividends, gains or loss on the remeasurement or derecognition of interests in structured entities, any mark-to-market gains/losses on a net basis and gains or losses from the transfer of assets and liabilities to the structured entity.*

42 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in the UK.

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

a *Transactions, arrangements and agreements involving Key Management Personnel*

The table below sets out transactions which fall under IAS 24 'Related Party Disclosures' between HSBC France and the Key Management Personnel of HSBC France and on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

	31.12.2014			31.12.2013		
(in thousands of euros)	***Number of persons***	***Highest balance during the year***[1]	***Balance at 31 December***[1]	*Number of persons*	*Highest balance during the year*[1]	*Balance at 31 December*[1]
Loans	**18**	**24,149**	**25,267**	3	1,383	898
Credit cards	**18**	**83**	**32**	3	27	21
Guarantees	**18**	**7,490**	**7,490**	3	–	–

1 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

Compensation to the Key Management Personnel of the group under IAS 24 is disclosed as follows:

(in thousands of euros)	**31.12.2014**	31.12.2013
Short-term employee benefits	**184**	134
Post-employment benefits	**165**	147
Long-term benefits	**–**	–
Termination fees	**217**	140
Share-based payment	**2,373**	1,618
	2,939	2,039

Directors and other Key Management Personnel shareholdings and options:

	31.12.2014[1]	31.12.2013[1]
Number of share options from equity participation plans held by Directors and other Key Management Personnel (and connected persons)	**–**	286,882
Number of shares held by Directors and other Key Management Personnel (and connected persons)	**1,606,446**	1,360,370[2]

1 *The number of key management personnel (including Directors and executive employed) were seven persons at 31 December 2014. Executive employees were not included at 31 December 2013.*
2 *The HSBC shares held through the mutual fund invested in HSBC shares and forming part of the group employee share ownership plan are not included.*

The Registration Document also includes a detailed description of Directors' remuneration (see pages 33 to 35).

42 Related party transactions *(continued)*

b *Transactions with other related parties*

Transactions with other related parties of the Group

There is no significant amount due to joint ventures and associates.

Transactions detailed below include amounts due to/from HSBC France and fellow subsidiaries of the HSBC Group.

(in millions of euros)	**31.12.2014**	31.12.2013
Assets		
Trading assets	**626**	1,795
Derivatives	**19,951**	16,860
Loans and advances to banks[2]	**1,901**	1,432
Loans and advances to customers[2]	–	–
Reverse repurchase agreement – non trading[2]	**3,404**	3,145
Financial investments	**346**	297
Other assets[1]	**289**	252
Prepayments and accrued income	**46**	73
Financial assets designated at fair value	**453**	673
Liabilities		
Deposits by banks[2]	**558**	908
Customer accounts[2]	**89**	100
Repurchase agreement – non trading[2]	**8,419**	14,262
Trading liabilities	**1,227**	1,244
Derivatives	**19,541**	16,992
Other liabilities[1]	**210**	192
Accruals and deferred income	**90**	98
Subordinated liabilities	**260**	–
Guarantees		
Financial guarantees	**6**	6
Credit-related substitutes	**39**	44
Other guarantees	**204**	255
	249	305
Income Statement		
Interest income[1]	**64**	98
Interest expense[1]	**9**	28
Fee income	**67**	59
Fee expense	**78**	84
Gains less losses from financial investments	**–**	–
Other operating income	**–**	–
Dividend income	**–**	–
General and administrative expenses	**79**	52

1 *Including interests on trading assets and trading liabilities for EUR 0.1 million in 2014 (2013: EUR 1 million).*
2 *At 31 December 2013, repurchase agreements at amortized cost were presented under 'Deposits by banks' and 'Customer accounts' and reverse repurchase agreements at amortized cost were presented under 'Loans and advances to banks' and 'Loans and advances to customers'. Since 1 January 2014, repurchase and reverse repurchase agreements at amortized cost are presented under a dedicated line of the balance sheet.*

43 Audit fees

(in thousands of euros excluding VAT)	KPMG				BDO France – Léger & Associés				Others			
	Amount		*%*		*Amount*		*%*		*Amount*		*%*	
	2014	*2013*	***2014***	*2013*	***2014***	*2013*	***2014***	*2013*	***2014***	*2013*	***2014***	*2013*
Audit												
Statutory audit, certification, examination of parent company and consolidated accounts	**1,439**	1,273	**64%**	62%	**552**	544	**98%**	98%	**67**	63	**100%**	100%
– issuer	**898**	897	**–**	–	**388**	388	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**541**	376	**–**	–	**164**	156	**–**	–	**67**	63	–	–
Related assignments	**807**	788	**36%**	38%	**12**	11	**2%**	2%	–	–	–	–
– issuer	**478**	635	**–**	–	–	6	**–**	–	–	–	–	–
– fully-consolidated subsidiaries	**329**	153	**–**	–	**12**	5	**–**	–	–	–	**–**	–
Sub-total	**2,246**	2,061	**100%**	100%	**564**	555	**100%**	100%	**67**	63	**100%**	100%
Other services												
Legal, tax, social	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other (if > 10 per cent of audit fees)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**2,246**	2,061	**100%**	100%	**564**	555	**100%**	100%	**67**	63	**100%**	100%

44 Detailed results of the Asset Quality Review

The Asset Quality Review (AQR), started in February and completed in July 2014, consisted of a detailed and wide onsite review of the banks' market and credit activities as well as finance, assessing bank's policies and processes of in-scope areas, but also reviewing a large number of credit files and several market models. Concerning the Credit activities, five portfolios of our French exposures were under specific scrutiny of the regulator's inspectors, namely two corporate portfolios (Large corporates and Large SME) and three retail portfolios (Retail SME, Retail Residential Real Estate and Retail Other – the latter includes housing loans guaranteed by Credit Logement).

For HSBC France, the overall AQR findings led to the request of limited quantitative prudential adjustments on four items:

– Individual provisions on credit file review
– Projection of findings on individual provisions
– Collectively assessed provisions
– CVA reserve

44 Detailed results of the Asset Quality Review *(continued)*

Detailed quantitative adjustments of the AQR

Net Adjustments

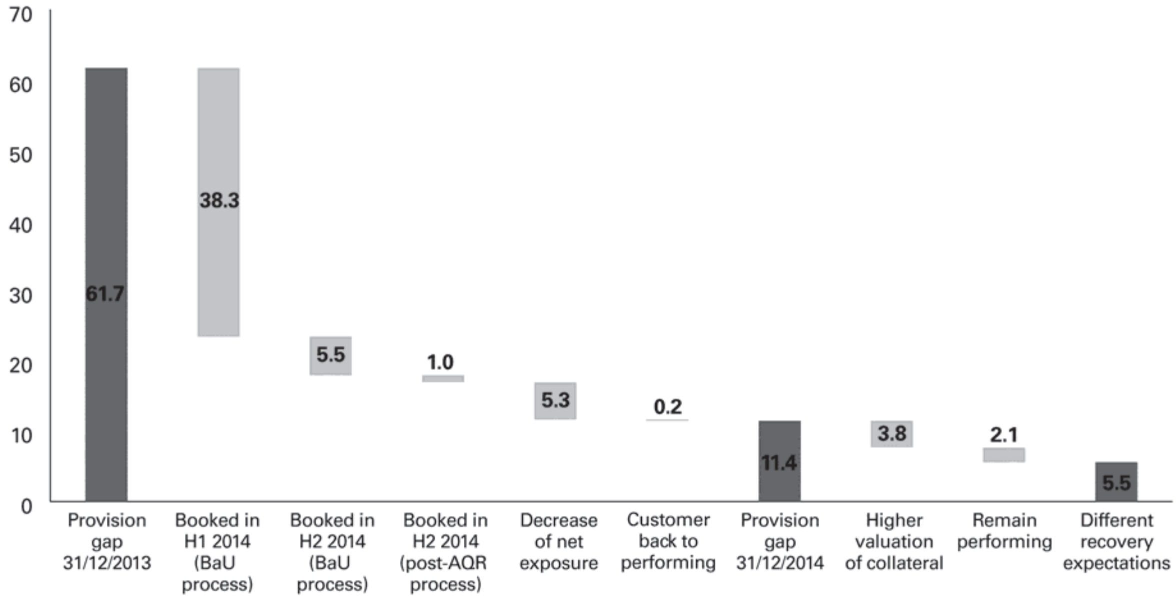
(in millions of euros)	*Individual provisions on credit file review*	*Projection of findings on individual provisions*	*Collectively assessed provisions*	*CVA reserve*	*Total*
Retail SME	–	–	23.4	NA	**23.4**
Retail Residential Real Estate	–	–	–	NA	**–**
Retail Other	–	–	–	NA	**–**
Large corporates	36.9	(0.1)	0	NA	**36.8**
Large SME	20.3	11.7	0	NA	**32.0**
Market activities (CVA reserve)	NA	NA	NA	13.1	**13.1**
Total adjustments	**57.3**	**11.6**	**23.4**	**13.1**	**105.5**

Following the AQR methodology, these prudential adjustments did not have to be automatically incorporated in HSBC France accounts. The relevance of reflecting such adjustments in the 2014 accounts has been studied on a case by case basis, in consideration of accounting rules, HSBC France's and HSBC Group's policies, as well as market best practice.

Individual provisions on credit file review

Following the individual credit file review, the provisioning gap was estimated at EUR57.3 million as of 31 December 2013, which resulted from a gross provision shortfall of EUR61.7 million and a gross provision excess of EUR4.4 million, according to the methodology used in the AQR.

Gap with AQR individual provisions (EUR million)



When considering the credit files for which increased prudential provisions were required (EUR61.7 million),

- EUR 50.3 million – Explained differences from AQR results :
  - EUR27.4 million had already been actually booked in the Q1 2014 accounts, prior to the beginning of the on-site review and EUR10.9 million were booked in Q2 2014, before the conclusion of the AQR;
  - An additional EUR5.5 million has been booked over the second semester, to reach by 31 December 2014 a total of EUR43.8 million additional individual provisions on the scope of the AQR. These provisions reflect the negative evolution of the credit risk during the course of 2014, not on the previous exercise. These provisions have been booked as the results of a thorough case-by-case analysis following HSBC France's and HSBC Group's credit policies, in compliance with accounting standards;

44 Detailed results of the Asset Quality Review *(continued)*

  - Credit exposures to clients for which there was deemed to be a provision shortfall under the credit file review decreased by EUR5.3 million during 2014 due to contractual repayments or lower credit utilisation;
  - After the communication of the AQR findings, all credit files for which a gap remained with the AQR-assessed provisions have been subject to an additional detailed individual review by HSBC France. This additional review has led us to raise an additional EUR1 million gross provision in Q4 2014.

- EUR11.4 million – Residual difference from AQR results.

Nevertheless, HSBC France has come to the informed conclusion after the detailed review that EUR11.4 million of adjustment should not be accounted by HSBC France as of 31 December 2014, for the following reasons

- EUR3.8 million stemming from the AQR-specific methodology that was used, whether in the assessment of collateral value (e.g. usage of standard haircuts) or in the provision calculation itself (e.g. adoption of a 'gone concern' approach whereas for financial reporting purposes and in accordance with IFRS, a 'going concern' assumption remained valid as the debtor had not ceased, and was not deemed to be close to cease operating);
- EUR2.1 million concerning certain debtors who continued to be classified as performing in 2014, either because impairment indicators were deemed to be insufficient in the absence of any sign of stress on liquidity and/or given the confirmation of the recovery that was projected, or because a material positive event has taken place (e.g. a takeover by a larger, high quality group);
- EUR5.5 million corresponding to exposures with different recovery expectations and which remained performing in 2014.

Projections of findings on individual provisions

The 'adjustment due to the projection of findings' amounted to EUR11.6 million. Following the AQR methodology, this adjustment is an extrapolation reflecting the adjustment on the sample credit files onto the entire selected corporate portfolios of HSBC France. This adjustment is therefore not linked to any specific credit file and, as such, cannot be reflected in the accounts of HSBC France in compliance with accounting rules.

Collectively assessed provisions

HSBC France collectively assessed provisions have been questioned by the European Central Bank using a 'Challenger model'. The estimates of such model have confirmed that the overall amount of collective impairment on performing loans for HSBC France was in line with ECB's expectations. The total amount of collective provision calculated by HSBC France on the five portfolios reviewed was coherent, even slightly higher than the calculated amount of the AQR exercise.

Collective provisioning has been assessed thanks to an ECB 'Provision Challenger model'. The 'challenger model' calculations have been performed at the level of each portfolio without compensation between portfolios. While HSBC France had comprehensively a higher level of collective provisioning than the output of the AQR model, the latter computed higher requirements on the retail SME portfolio that HSBC France has decided not to take into account as of 31 December 2014, for the following reasons:

- Most of the adjustment on performing exposures is resulting from the allocation of its collective provision that was made by HSBC France during the preparation works of the AQR. At the time, the decision was made to proportionally allocate such provision to the performing borrowers' individual exposure. In practice, HSBC France does not allocate its collective provision against performing borrowers individually. Collective provisions are calculated by industry sector, across the various client segments. Consequently, the artificial allocation made by HSBC France for the purpose of the AQR was not reflective of the risk of each portfolio.
- The rest of the adjustment corresponds to non-performing exposures which, as such, is covered by HSBC France as individual provisions;

Credit Valuation Adjustment

Market activities have been the object of a limited CVA prudential adjustment, reflecting the gaps between reserve calculated by HSBC France and the theoretical reserve computed by the ECB. This adjustment amounted to EUR13.1 million as of 31 December 2013 and corresponds to:

44 Detailed results of the Asset Quality Review *(continued)*

- The differences between the computation of HSBC France's CVA and the AQR's model:

Differences have been computed by comparison of HSBC France CVA reserve and an ‘AQR CVA challenger model’ by type of asset classes and rating of counterparties. This computation is conservative as only adverse gaps with the AQR model were retained to compute the total adjustment. Several reasons explain the minor differences drawn by the AQR model, in particular:

– Differences of the default probabilities used in both approaches;

– Discrepancies between the choice of a discounting curve: the AQR model used an OIS curve while HSBC France uses a Libor curve;

– HSBC survival probability is taken into account in France CVA computation whereas this might not be the case for of the AQR model.

As testified by the AQR itself during the ‘Core Process Review’, CVA calculations of HSBC France are in line with accounting rules and market practices, it has therefore been considered irrelevant to take additional reserve on such non-significant and specific gaps.

- The inclusion of internal counterparties not being taken into account by HSBC France CVA computation:

This adjustment stemming from the internal counterparties exposure is somewhat specific to HSBC France as this is one of the very few Eurozone Significant Banks to be part of a wider banking group. As such, the positions HSBC France had towards the rest of the Group were in scope of the review, while this would have been eliminated as intercompany positions in the case of a whole Group being part of the exercise. HSBC France considers this is not relevant either to include such calculations in its 2014 accounts on the basis that:

– Intra-group CVA is computed and monitored monthly by HSBC France;

– Daily bilateral CSAs are in place between HSBC France and other intra-group entities which guarantees the intra-group CVA stays at a low level;

– Following the rules of HSBC Group, two ways transactions are regularly executed between HSBC Group entities with a nil CVA and Fair Value is therefore effectively CVA-free for internal transactions.

45 Events after the balance sheet date

There have been no material events after the balance sheet date which would require disclosure or adjustment to the 31 December 2014 financial statements.

Statutory Auditors' report on the consolidated financial statements

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures. This report also includes information relating to the specific verification of information given in the Group's management report.This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2014

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2014, on:

– the audit of the accompanying annual consolidated financial statements of HSBC France;
– the justification of our assessments;
– the specific verifications and information required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I - Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2014 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying the conclusion expressed above, we draw your attention to the matter discussed in note 1 to the consolidated financial statements relating to new accounting standards and interpretations that HSBC France has applied starting 1 January 2014.

II - Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

– your company accounts for depreciations to cover the credit and counterparty risks inherent to its activities (notes 2.c and 36 to the consolidated financial statements). We have reviewed the control procedures relating to credit and counterparty risk monitoring, the assessment of risks of non-recoverability and the calculation of the corresponding individual and collective impairment.
– your company holds positions in securities and financial instruments (notes 2.d, 12, 13, 14, 15, 22, 28, 29 and 30 to the consolidated financial statements). We have examined the control procedures for the accounting classification of these positions and for determining the parameters used to value them. We have verified the appropriateness of the accounting policies selected by your company and have satisfied ourselves that they are applied correctly.
– your company assessed the impact of changes in its own credit risk with respect to the valuation of issuances measured at fair value through profit and loss (note 30 to the consolidated financial statements). We have assessed the appropriateness of the parameters used for this purpose.

– your company recognizes provisions to cover risks and litigations related to its activity (note 40 to the consolidated financial statements). We have examined the methodology used to measure these provisions, as well as the main assumptions applied.

– your company accounts for an intangible asset which represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date ((PVIF or *Present Value of In-Force*) (notes 2.g and 18 to the consolidated financial statements). Our work consisted in assessing parameters and assumptions on which this estimate is based. We have also reviewed the calculations completed by your company based on a sample and examined the approval procedures relating to this estimate. As noted in the note 18 to the consolidated financial statements, this estimate is based on economic and non-economic assumptions, which are very sensitive and uncertain over the time of projections of the cash flows. Consequently, the evolution of these parameters could lead to an increase or a decrease of the value of the PVIF.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

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

Paris-La Défense and Paris, on the 27 February 2015

KPMG Audit FS II	BDO France – Léger & Associés
Pascal Brouard	Fabrice Chaffois
Partner	*Partner*

Parent company financial statements

Balance sheets 2014-2013

ASSETS

(in thousands of euros)	*Notes*	**31.12.2014**	31.12.2013
Cash and amounts due from central banks and post office banks		**215,276**	484,330
Treasury bills and money-market instruments	*4*	**34,484,932**	33,261,445
Loans and advances to banks	*2*	**32,809,408**	41,905,501
Loans and advances to customers	*3*	**52,293,914**	55,092,317
Bonds and other fixed income securities	*4*	**8,486,764**	9,003,203
Equities and other variable income securities	*4*	**18,731**	4,636
Investments in subsidiaries and equity securities held for long-term	*5*	**89,260**	95,137
Interests in affiliated parties	*5*	**1,642,173**	1,709,289
Finance leases	*7*	**341,520**	237,550
Intangible fixed assets	*6*	**244,680**	244,487
Tangible fixed assets	*7*	**216,030**	224,234
Other assets	*9*	**25,818,360**	22,447,878
Prepayments and accrued income	*10*	**138,403,630**	119,097,320
TOTAL ASSETS		**295,064,678**	283,807,327
Off-balance sheet items			
Financing commitments given	*21*	**23,389,566**	21,619,446
Guarantees and endorsements given	*21*	**4,044,246**	4,371,652
Securities commitments (other commitments given)		**28,307,482**	33,022,031

LIABILITIES

		31.12.2014		31.12.2013
(in thousands of euros)	*Notes*	Before appropriation	After appropriation[1]	After appropriation
Central bank, CCP		**104**	**104**	–
Due to credit institutions	*11*	**40,432,643**	**40,432,643**	38,932,997
Customer accounts	*12*	**52,394,114**	**52,394,114**	63,183,023
Debt securities in issue	*13*	**14,016,031**	**14,016,031**	14,441,756
Other liabilities	*15*	**44,730,100**	**44,730,100**	45,691,238
Accruals and deferred income	*16*	**137,645,839**	**137,645,839**	116,361,411
Provisions for liabilities and charges	*14*	**387,467**	**387,467**	391,188
Subordinated liabilities	*17*	**291,465**	**291,465**	31,375
Share capital	*18*	**337,189**	**337,189**	337,189
Additional paid-in capital		**16,139**	**16,139**	16,139
Reserves		**1,042,891**	**1,042,891**	1,042,970
Special tax-allowable reserves		**19,665**	**19,665**	20,128
Retained earnings		**3,357,913**	**3,600,645**	3,357,913
Net profit of the year		**393,118**	**–**	–
Interim dividend		**–**	**–**	–
TOTAL LIABILITIES		**295,064,678**	**294,914,292**	283,807,327
Off-balance sheet items				
Financing commitments received	*21*	**3,549,574**	**3,549,574**	5,426,299
Guarantees and endorsements received	*21*	**11,722,453**	**11,722,453**	10,064,213
Securities commitments (other commitments received)		**30,747,021**	**30,747,021**	26,481,821

1 *Proposed appropriation submitted to Annual General Meeting's approval.*

The euro conversion value of foreign currency denominated balance sheet amounted to EUR 34.7 billion at 31 December 2014 and to EUR 22.5 billion at 31 December 2013.

Parent company financial statements (continued)

Profit and loss accounts 2014-2013

(in thousands of euros)	*Notes*	**31.12.2014**	31.12.2013
Income/(Expenses)			
Interest and similar income	*23*	**1,639,412**	1,831,335
Interest and similar expenses	*23*	**(603,562)**	(841,056)
Finance leases income		**61,451**	40,470
Finance leases expenses		**(61,106)**	(37,256)
Income from equities and other variable instruments	*24*	**96,346**	45,265
Commissions received	*25*	**751,260**	776,203
Commissions paid	*25*	**(170,142)**	(187,093)
Dealing profits	*26*	**318,406**	346,672
Gains or losses on available-for-sale securities	*27*	**21,684**	10,915
Other banking operating income		**14,032**	12,054
Other banking operating expenses		**(3,477)**	(327)
Net banking operating income		**2,064,304**	1,997,182
General operating expenses	*28*	**(1,374,174)**	(1,422,305)
Depreciation, amortisation and impairment of fixed assets		**(49,860)**	(53,773)
Gross operating income		**640,270**	521,104
Cost of risk	*8*	**(119,061)**	(86,898)
Net operating income		**521,209**	434,206
Gains or losses on disposals of long term investments	*29*	**(7,490)**	9,951
Profit before tax		**513,719**	444,157
Exceptional items		**(5)**	(5)
Income tax	*30*	**(121,061)**	(118,872)
Gains and losses from regulated provisions		**465**	6,094
Net income		**393,118**	331,374

Statement of reported net profit and movements in shareholders' funds

(in thousands of euros)	**31.12.2014**	31.12.2013
Net profit for the year		
– total	**393,117.6**	331,373.9
– per share (*in euros*)[1,2]	**5.83**	4.91
Movements in shareholders' funds (excluding the net profit of 2014)		
(after appropriation of 2013 net profit)		
– change in revaluation difference	**(78.9)**	(141.5)
– transfer to reserves and change in retained earnings	**211,334.6**	361,111.3
– allocation of net profit of previous year	**331,373.9**	601,190.0
– appropriation of net profit	**(120,039.3)**	(240,078.7)
– change in revaluation reserve and special tax-allowable reserves	**(463.2)**	(6,092.9)
Change in shareholders' funds	**210,792.5**	354,876.9
– per share *(in euros)*[1,2]	**3.13**	5.26
Proposed dividend		
– total	**150,386.4**	120,039.3
– per share *(in euros)*[1,2]	**2.23**	1.78

1 *Number of shares outstanding at year end: 67,437,827 in 2014 and 2013.*

2 *Based on the weighted average number of shares outstanding, dividend per share amounted to EUR 2.23 in 2014 (67,437,827 shares) and EUR 1.78 in 2013 (67,437,827 shares).*

Parent company financial statements (continued)

Appropriation of net profit

(in thousands of euros)	**31.12.2014**	31.12.2013
Results available for distribution		
– retained earnings	**3,357,913**	3,146,578
– net profit for the year	**393,118**	331,374
TOTAL (A)	**3,751,031**	3,477,952
Appropriation of income		
– dividends	**150,386**	120,039
– legal reserve	**–**	–
– free reserve	**–**	–
TOTAL (B)	**150,386**	120,039
Retained earnings (A - B)	**3,600,645**	3,357,913

Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

(in thousands of euros)	**2014**	2013	2012	2011	2010
Share capital at year end					
Called up share capital	**337,189**	337,189	337,189	337,189	337,189
Number of issued shares	**67,437,827**	67,437,827	67,437,827	67,437,827	67,347,820
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Sales	**2,902,591**	3,062,914	3,263,800	3,316,395	3,402,924
Profit before tax, depreciation and provisions	**697,821**	643,612	799,099	146,388	873,707
Profit after tax, depreciation and provisions	**393,118**	331,374	601,190	26,504	819,731
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**8.6**	7.9	8.6	4.4	12.2
Profit after tax, depreciation and provisions	**5.8**	4.9	8.9	0.4	9.2
Dividend paid per ordinary share, eligible as of 1 January	**2.23**	1.78	3.56	1.75	10.67
Employees (France)					
Number of employees[1]	**9,144**	9,198	9,424	9,860	9,694
Average number of employees (excluding employees available)[2]	**9,158**	9,207	9,645	9,748	9,615
Salaries and wages	**533,636**	553,982	559,888	577,016	535,533
Employee benefits	**257,461**	266,903	289,322	244,808	247,908
Payroll and other taxes	**69,723**	59,794	62,784	72,650	96,763
Incentive schemes and/or employee profit-sharing scheme[3]	**27,237**	37,520	–	29,560	39,500

1 *Banking status employees, registered as at 31 December of each year.*

2 *Of which 6,194 executives and 2,964 non-executives in 2014; of which 6,202 executives and 3,005 non-executives in 2013; of which 6,402 executives and 3,243 non-executives in 2012; of which 6,322 executives and 3,426 non-executives in 2011; of which 6,116 executives and 3,499 non-executives in 2010.*

3 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2014 (excluding trading securities)

Held-on maturity, available-for-sale and portfolio activity securities

(in thousands of euros)	31.12.2014
A – Held-to-maturity securities	**470,314**
Debt securities	**470,314**
Treasury bills and other eligible bills	–
Other public sector securities	–
Money market instruments	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Bonds and similar assets	**470,000**
Accrued interest	**314**
B – Available-for-sale and portfolio activity securities	**9,609,391**
Debt securities	**9,590,660**
Treasury bills and other eligible bills	**1,184,570**
Other public sector securities	**5,346,684**
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Asset-backed securities	–
Bonds and similar	**2,990,933**
Negotiable medium-term notes issued by banks	–
Accrued interest	**68,473**
Equity shares	**18,731**
Equity shares and similar	**18,731**
Mutual fund units	–
TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES	**10,079,705**

Interests in related parties, other participating interests and long-term securities

(in thousands of euros)	31.12.2014
A – Other participating interest and long-term securities	**89,260**
Securities listed on a recognized French exchange	**432**
Unlisted French securities	**88,828**
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	–
Unlisted foreign securities	–
Accrued income	–
B – Interests in related parties	**1,642,173**
Listed French securities	–
Unlisted French securities	**1,623,897**
Listed foreign securities	–
Unlisted foreign securities	**18,276**
Accrued income	–
TOTAL INTERESTS IN RELATED PARTIES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**1,731,433**

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2014

(in thousands of currency units)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Information on companies whose book value at cost exceeds 1% of HSBC France's share capital					
1 – Subsidiaries (over 50%)					
HSBC SFH (France) (ex-HSBC Covered Bonds) 15 rue Vernet – 75008 Paris (France)	Limited company (SA)	Housing investment company	EUR113,250	EUR1,063	100.00
HSBC Factoring (France) 103 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Factoring	EUR9,240	EUR62,854	100.00
COPARI Société de Constructions et de Participations Immobilières 184 avenue Frédéric & Irène Joliot-Curie 92000 Nanterre (France)	Simplified join-stock company (SAS)	Real estate	EUR50	EUR1,129	99.96
Société Française et Suisse 64 rue Galilée – 75008 Paris (France)	Limited company (SA)	Investment company	EUR599	EUR7,849	100.00
FDM 6 39 rue de Bassano – 75008 Paris (France)	Simplified join-stock company (SAS)	Investment company	EUR139,053	EUR5,663	100.00
SAPC UFIPRO Recouvrement 39 rue de Bassano – 75008 Paris (France)	Limited liability company (SARL)	Debt collecting company	EUR7,619	EUR1,561	99.98
HSBC Epargne Entreprise (France) 15 rue Vernet – 75008 Paris (France)	Limited company (SA)	Employee savings	EUR16,000	EUR16,688	100.00
HSBC Global Asset Management (France) 4 place de la Pyramide – La Défense 9 92800 Puteaux (France)	Limited company (SA)	Asset management	EUR8,050	EUR67,876	93.67
HSBC Services (France) (ex-HSBC Securities) 103 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Commercial company	EUR12,626	EUR13,206	100.00
Valeurs Mobilières Elysées (ex-Nobel) 109 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Investment company	EUR72,000	EUR28,100	100.00
SAF Palissandre 64 rue Galilée – 75008 Paris (France)	Simplified join-stock company (SAS)	Financial company	EUR42,033	EUR873	100.00

1 *Loans, advances and guarantees granted outside the framework of normal banking business.*
2 *Net operating income in the case of banks.*

Book value of securities held		Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Last year's sales[2]	Last year's net profit or loss	Dividends received by HSBC France in the last financial year	Comments
Cost	Net						
EUR113,239	EUR113,239	–	–	EUR110,730	EUR1,412		–
EUR39,236	EUR39,236	EUR1,437	–	EUR37,483	EUR9,060	–	–
EUR36,370	EUR1,172	–	–	EUR3	EUR(10)	–	–
EUR60,384	EUR9,368	–	–	EUR38	EUR(119)	EUR2,013	–
EUR128,916	EUR128,916	–	–	EUR356	EUR229	–	–
EUR16,260	EUR9,190	–	–	EUR22	EUR11	–	–
EUR15,148	EUR15,148	–	–	EUR8,574	EUR(3,950)	–	–
EUR134,546	EUR134,546	EUR331	–	EUR198,680	EUR29,298	EUR31,106	–
EUR55,988	EUR25,873	–	–	EUR140	EUR19	–	–
EUR116,376	EUR116,376	–	–	EUR55,916	EUR13,574	EUR9,245	–
EUR41,617	EUR41,617	–	–	EUR101	EUR55	EUR66	–

Parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2014 (continued)

(in thousands of currency units)	Legal status	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Information on companies whose book value at cost exceeds 1% of HSBC France's share capital					
1 – Subsidiaries (over 50%) (continued)					
HSBC Leasing (France) . . . . 39 rue de Bassano – 75008 Paris (France)	Simplified join-stock company (SAS)	Leasing	EUR168,528	EUR59	100.00
Société Financière et Mobilière . . . . 103 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Holding company	EUR40,000	EUR51,082	100.00
Foncière Elysées. . . . . 103 avenue des Champs-Elysées 75008 Paris (France)	Simplified join-stock company (SAS)	Real estate	EUR14,043	EUR14,119	100.00
Société Immobilière Malesherbes Anjou. . . . . 103 avenue des Champs-Elysées 75008 Paris (France)	Limited company (SA)	Real estate	EUR13,412	EUR9,967	100.00
Charterhouse Management Services Ltd . . . . 8 Canada Square London E14 5HQ (United Kingdom)	Limited company under English law	Investment company	GBP 10,000	GBP 2,196	100.00
HSBC Real Estate Leasing (France) . . . . 15 rue Vernet – 75008 Paris (France)	Limited company (SA)	Real estate leasing	EUR38,255	EUR35,216	80.98
CCF & Partners Asset Management Ltd . . . . 8 Canada Square London E14 5HQ (United Kingdom)	Limited company under English law	Investment holding	GBP 5,000	GBP 5,576	100.00
HSBC Assurances Vie (France) . . . . 15 rue Vernet – 75008 Paris (France)	Limited company (SA)	Insurance company	EUR115,000	EUR270,060	100.00
2 – Associated companies (10-50%)					
B – Aggregate data concerning companies whose book value at cost does not exceed 1% of HSBC France's share capital					
1 – Subsidiaries not included in paragraph 1					
a) French subsidiaries (aggregated)	–		–	–	–
b) Foreign subsidiaries (aggregated)	–		–	–	–
2 – Related party companies not included in paragraph 2					
a) French companies (aggregated)	–		–	–	–
b) Foreign companies (aggregated)	–		–	–	–

1 *Loans, advances and guarantees granted outside the framework of normal banking business.*
2 *Net operating income in the case of banks.*

Book value of securities held: Cost	Net	Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Last year's sales[2]	Last year's net profit or loss	Dividends received by HSBC France in the last financial year	Comments
EUR281,756	EUR281,756	–	–	EUR35,949	EUR(24,653)	–	–
EUR84,053	EUR84,053	–	–	EUR3,253	EUR(2,854)	EUR2,800	–
EUR44,478	EUR37,614	–	–	EUR1,645	EUR1,459	EUR8,344	–
EUR49,385	EUR33,232	–	–	EUR11,960	EUR2,131	EUR29,889	–
EUR12,839	EUR12,839	–	–	EUR44	EUR(24)	–	–
EUR37,190	EUR37,190	–	–	EUR182,168	EUR8,740	EUR6,098	–
EUR5,438	EUR5,438	–	–	EUR19	EUR12	–	–
EUR513,985	EUR513,985	EUR270,000	–	EUR1,930	EUR61	–	–
						–	–
EUR50	EUR50	–	–	–	–	EUR2,864	–
EUR1,819	EUR1,316	–	–	–	–	–	–
EUR4	EUR4	–	–	–	–	–	–
–	–	–	–	–	–	–	–

Parent company financial statements (continued)

Transactions with subsidiaries and other related parties

	31.12.2014	
(in millions of euros)	***Subsidiaries***	***Other related parties***
ASSETS		
Treasury bills and money-market instruments	**–**	**3,716.3**
Loans and advances to banks	**2,991.7**	**5,222.4**
Loans and advances to customers	**173.2**	**547.3**
Bonds and other fixed income securities	**525.0**	**–**
LIABILITIES		
Due to credit institutions	**4,569.4**	**10,197.5**
Customer accounts	**1,052.5**	**95.0**
Debt securities	**–**	**–**
Other liabilities	**–**	**3,716.3**
Subordinated liabilities	**–**	**260.0**
OFF-BALANCE SHEET ITEMS		
Financing commitments given	**1,331.3**	**1,587.6**
Guarantees and endorsements given	**118.5**	**249.4**
Securities commitments (other commitments given)	**–**	**550.2**

Notes to the parent company financial statements

2014 Highlights

Business review
In France and in Europe, 2014 faced a weak economic growth with an additional notable drop in corporate investments in a context of historically low interest rates.

Net operating income was EUR 2,064 million in 2014, 3 per cent higher than in 2013. This change was mainly explained by a satisfactory performance in all business lines in a difficult environment, mainly in Retail Banking and Wealth Management. Global Banking and Markets were affected by a lack of volatility and a weak demand from customers. Revenues remained well balanced across the operational businesses.

Operating expenses were EUR 1,374 million, 3 per cent lower than 2013 and were well managed despite investments in compliance due to more and more rigorous regulations.

Loan impairment charges were EUR 119 million compared to EUR 87 million in 2013.

Profit before tax was EUR 514 million in 2014 an increase of 16 per cent.

Profit attributable to shareholders was EUR 393 million compared to EUR 331 million in 2013. In respect of financial 2014, a dividend of EUR 150 million has been proposed to be distributed to shareholders.

On 31 December 2014, the balance sheet was EUR 295.1 billion compared to EUR 283.8 billion in 2013. The increase was primarily due to the rise in fair value of derivatives in the trading portfolio and the new stock versus stock transaction activities.

Targeted Long Term Refinancing Operations (TLTRO)
HSBC France participated to the TLTRO, up to EUR 1.1 billion, in order to continue to support the development of its clients by offering them lending at competitive rates.

Issuing debts
HSBC France also increased its regulatory capital at the end of 2014 in the form of Tier 2 subordinated debt of EUR 260 million which was entirely subscribed by HSBC Holdings.

In order to finance the development of its businesses, HSBC France issued EUR 2 billion medium-term negotiable debt securities with a 2-year term (28 basis points above 3-month Euribor).

Bonds versus bonds
HSBC France has traded for the first time in September 2014 stock versus stock transactions within HBEU. At the end of December 2014, stock versus stock transactions amounted to EUR 2.2 billion.

Single Supervisory Mechanism (SSM)
Before the European Central Bank (ECB) formally took responsibility for bank supervision under the Single Supervisory Mechanism (SSM) – that started on 4 November 2014 – it has conducted a Comprehensive Assessment of the “significant banks” that is now directly supervised. This assessment included notably an Asset Quality Review (AQR) and a stress test exercise (the latter carried out jointly with European Banking Authority). It covered 128 banks in 18 member States representing 85 percent of the Euro zone bank assets. HSBC France, as HSBC Malta, as bank part of the SSM, has been included in the assessment carried out. The rest of HSBC group was not included.

In this context, HSBC France maintained the application of its accounting rules and principles which remain unchanged compared to the previous year.

The detailed outcome of the assets quality review is described in page 9 of the management report and in notes 44 on pages 229 to 232 of the consolidated accounts.

1 Principal accounting policies

The presentation of HSBC France financial statements complies with the 2014-03 and 2014-07 ANC regulations and the accounting policies generally accepted in France and applicable to credit institutions.

a *Recognition and depreciation/amortisation of fixed assets*

HSBC France applies the principles of articles 214-1 to 214-27 Assets assessment after their first recognition of 2014-03 ANC regulation on the depreciation, amortisation and impairment of assets.

HSBC France applies the component approach in recognising, depreciating and amortising fixed assets.

Operating and investment fixed assets

For operating and investment fixed assets, HSBC France adopted the components approach as a minimum floor using the following components, methods and useful lives:

Components	Periods and depreciation and amortisation methods
Infrastructure	
Building	25 and 50 years on a straight-line basis
Civil engineering works	25 years on a straight-line basis
Technical installations	
Air conditioning Ventilation Heating	10 years on a straight-line basis
Electrical installations	10 years on a straight-line basis
Telephone and electrical fittings	10 years on a straight-line basis
Security fittings	10 years on a straight-line basis
Fittings	
Improvements and internal fittings	10 years on a straight-line basis

Goodwill

Acquired goodwill is subject to impairment on the basis of objective indicators.

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned.

	Periods and depreciation and amortisation methods
Office equipment	5 years, reducing or straight-line basis
Furniture	5 to 10 years, reducing or straight-line basis
IT hardware	3 to 5 years, reducing or straight-line basis
Software	3 to 5 years, straight-line basis

Assets held under finance lease

The assets held under the leasing activity are recognised in accordance with the French Urgent Issues Committee of the CNC recommendation 2006-C of 4 October 2006 relating to the interpretation of CNC recommendation 2004-15 of 23 June 2004 relating to the definition, recognition and valuation of assets excluding from individual company accounts lease contracts in the sense of IAS 17 from the scope of articles 211-1 to 224-4 of 2014-03 ANC regulation. Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

The depreciation periods are as follows:

- furniture and office equipment: 5 years;
- computer equipment: 3 years;
- tools and equipment: 5 to 7 years.

1 Principal accounting policies *(continued)*

Depreciation and amortisation of fixed assets leased under operating leases are recognised as an expense on finance lease or operating lease.

In financial accounting, the financial contracts outstanding is substituted to net fixed assets leased. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the unearned finance income.

b *Securities portfolio*

Securities transactions are recognised in accordance with the principles set out in articles 2311-1 to 2391-1 of 2014-07 ANC regulation.

Securities are categorised as follows:

– trading account securities;

– available-for-sale securities;

– held-to-maturity securities;

– portfolio activity securities;

– other long-term securities;

– interests in subsidiaries and associates.

Securities are recognised on the balance sheet at the date of settlement.

Trading account securities

Trading account securities are those securities traded on an active market originally acquired or sold with the intention that they will be resold or bought back within short timescale and are held for market making activities or for the specialised management of the trading portfolio.

Trading securities are stated at cost (including accrued interest for fixed-income securities). At the balance sheet date, the securities are valued at market price, and changes in value are recognised through profit or loss.

Debt related to securities sold short is recognised as a liability by the seller for the sale price of securities excluding associated costs.

Trading securities are measured mainly on the basis of quoted prices in an active market. However, when a market becomes inactive, the bank uses valuation models that take account of the new categorisation of markets. In this case, an element of judgement is involved in determining fair value.

Available-for-sale securities

Available-for-sale securities are those securities not treated as trading account securities, neither portfolio activity securities nor as securities covered by articles 2351-1, 2351-2 and 2351-3 of 2014-07 ANC regulation, acquired for the purposes of income and liable to be resold within a relatively short timescale.

On the date of acquisition, they are recorded at cost price (excluding accrued income for fixed-income securities).

At the closing of the period, available-for-sale securities are valued individually at the lowest of their cost price or market value. The market value of equity and similar securities is represented by quoted prices at 31 December for listed securities and by probable trading prices for unlisted securities. The market value of fixed-income securities is the quoted price on the last working day of the period.

Unrealised losses give rise to the recognition of an impairment.

Realised or unrealised gains or losses on hedging instruments are taken into account by instrument for the calculation of impairment.

Unrealised gains are not recognised.

1 Principal accounting policies *(continued)*

Held-to-maturity securities

Fixed-income securities that were acquired for holding long-term, and in principle to maturity, are categorised as held-to-maturity securities.

Portfolio activity securities are recognised on the date of acquisition at the acquisition price.

Held-to-maturity securities are valued at historical cost.

Where the acquisition price of fixed income securities is greater than their redemption value, the difference is amortised over the residual life of the securities.

Where the acquisition price of fixed income securities is less than the redemption price, the difference is recognised in income over the residual life of the securities.

In the event of counterparty risk, impairment is charged.

Portfolio activity securities

This category regroups investments made under normal arrangements with the sole objective of making medium-term capital gains with no intention of investing long-term in the business of the issuing entity, nor of taking an active part in the management of its operations. This is particularly the case for securities held in venture capital businesses.

Portfolio activity securities are recognised individually at the lower of their historical cost or value-in-use, determined with regard to the issuer's general prospects and the anticipated holding period.

The methods for assessing value-in-use are set out below.

Other long-term securities

"Other long-term securities" are equity shares and similar securities that HSBC France intends to hold long-term to derive a satisfactory return within an undefined period of time, without however taking any part in managing the businesses in which the shares are held, but with the intention of fostering long-term business relationships by creating a special link with the issuing companies. These securities are recorded individually at the lowest of their acquisition value or their value-in-use.

The methods for assessing value-in-use are set out below.

Interests in subsidiaries and associates

The heading "Interests in subsidiaries and associates" regroups securities held long-term (equity interests) and holdings in subsidiaries (shares in group companies).

Interests in subsidiaries and associates are valued individually at the lowest of their cost and their value-in-use, as determined below.

The assessment of the value-in-use of portfolio activity securities, other long-term securities and interests in subsidiaries and associates is carried out using a comprehensive approach based on the combination of a number of criteria:

– economic and financial assessment of the company based mainly on the value of its revalued net assets;
– market appraisal based on research by financial analysts;
– movements in market prices for listed companies, and for interests in subsidiaries and associates consideration of the specific relationships that may exist between HSBC France and each of the companies involved.

Recognition of gains and losses

Gains or losses on trading securities are recorded under the heading "Dealing profits".

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading "gains or losses on available-for-sale securities".

Concerning the other securities, gains or losses on sale and impairment charges are recognized under the heading "gains or losses on disposals of long-term investments" in the income statement.

1 Principal accounting policies *(continued)*

Sale and repurchase agreements

Stock lending or temporary acquisition, governed for legal purposes by law no. 93-1444 of 31 December 1993, amended by law no. 2003-1311 of 30 December 2003, referred to as stock repurchase agreements, have no effect on the composition and valuation of the securities portfolio. For accounting purposes, in accordance with articles 2411-1 to 2412-4 of 2014-07 ANC regulation, they are treated as financing transactions, with the counter-entries to cash movements being receivables or payables, depending on whether they involve stock lending or borrowing. Income and expenses received or borne by the transferee or transferor are recognised as interest.

Securities received or given under repurchase agreements

Repurchase transactions that do not fall within the scope of law no. 93-1444 are categorised under this heading in the balance sheet. Their treatment for accounting purposes is similar to that described above for securities under sale and repurchase agreements.

Similar treatment is applied to “Buy and sell back” and “Sell and buy back” transactions.

Bonds versus bonds

Bonds versus bonds transactions are recognised in accordance with the principles set out in the article 2361-2 of 2014-07 ANC regulation.

Off-balance sheet repos and reverse repos

In accordance with articles 2371-4 “measured at cost” of 2014-07 ANC regulation, repo transactions are recorded in off-balance sheet between the trade date and the settlement/delivery date and on accounted for as “securities commitments”.

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c *Loans and advances*

Loans assessed individually

Non-performing and impaired loans

Non-performing loans and impaired loans are recorded in accordance with the article 2222-1 of 2014-07 ANC regulation.

Non-performing loans include all types of receivables, even receivables with collateral, with a probable or certain risk of non-recovery, in full or in part.

Loans and receivables are classified according to HSBC France’s internal loan rating system. Performing loans have a rating of between 1 and 8, non-performing loans have a rating of 9 and impaired loans have a rating of 10. External ratings do not have a direct influence on loan classification, except that a loan whose external rating reflects a position of default will be classified as “non-performing” other than in exceptional circumstances.

The following are therefore categorised as non-performing loans:

– receivables overdue for more than three months for all types of loans and equipment leases, with this period rising to more than six months for property loans or leases and more than nine months for loans to local government bodies;
– receivables with known risk criteria;
– receivables which, before expiry of these time limits, appear to be at risk (insolvent administration, liquidation or personal bankruptcy, etc.);
– receivables deriving from debt restructuring for which the debtor is again in default.

HSBC France applies the provisions of article 2221-2 of 2014-07 ANC regulation on identifying overdrafts at risk of default. For overdrafts, the overdue period starts when:

– the debtor exceeds an authorised limit that has been notified to him by HSBC France;
– or the debtor is notified that the amount outstanding exceeds a limit set by HSBC France under its internal control system;
– or the debtor withdraws amounts without overdraft authorisation.

The downgrade to non-performing loans immediately applies to all amounts outstanding and commitments for that debtor that are in the same category, on the contagion principle and, if applicable, the downgrade of counterparties belonging to the same group to non-performing debtors, on a case-by-case assessment.

In application of the article 2221-5, HSBC France has introduced a specific system for dealing with restructured debt and impaired loans.

1 Principal accounting policies *(continued)*

In application of the article 2221-8 of 2014-07 ANC regulation, impaired loans are those for which the prospect of recovery is very remote and for which a write-off is being considered. These include receivables which are long overdue or for which the contract has been terminated in case of leasing, and also receivables that have been categorised as non-performing for more than one year, unless final write off is not being considered because of information on the prospects for recovery available at that stage. Interests on impaired loans are not recognised through profit or loss until the date of actual payment.

Reclassification into performing loans

In application of the article 2221-5 of the 2014-07 ANC regulation, a loan that has been classified as non-performing may be reclassified as performing when the original scheduled payments have been resumed without further incident and, in the case of restructured loans, the counterparty risk has been eliminated.

Risk mitigation instruments

The bank uses the customary risk mitigation instruments including guarantees and collateral (which is re-measured at least annually depending on its nature) and, to a minor extent, the purchase of credit default swaps (CDS). In this latter case, the risk mitigation impact is only recognised if the CDS meets the relevant regulatory conditions for recognition (term, currency, etc.).

Recognition of gains and losses

Charges for impairment against non-performing and impaired loans, included in the calculation of the banking result, are determined annually on the basis of the risk of non-recovery assessed by analysing each loan individually. In application of the article 2231-1 of the 2014-07 ANC regulation, impairment of non-performing and impaired loans has been calculated on the basis of the difference between the net present value of expected future recoveries and the carrying amount of the loan. Impairment may not be less than the amount of unpaid, recognised interest on the loan.

Expected future cash flows are determined on the basis of an individual review of the customer's position, including the existence or probability of a collective procedure against the customer, as well as the value and liquidity of any guarantees or collateral. The discount rate used is the original effective interest rate for fixed-rate loans and the last known contractual rate for variable-rate loans.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on receivables that had been written off are recognised in the "Cost of risk" line.

Loans assessed on a portfolio basis

Non-performing loans are not measured on a portfolio basis. Impairment is individually assessed.

Discount on restructured debt

In application of articles 2221-5 and 2231-3 of the 2014-07 ANC regulation, HSBC France applies a specific system for dealing with restructured debt, when they have a significant impact.

On restructuring, any waived principal and interest, accrued or due, is written off.

Moreover, at the time of restructuring, a discount is provided for on the restructured debt for the difference between the present value of initially anticipated contractual cash flows and the present value of future flows of capital and interest arising from the restructuring plan. The discount rate used is the original effective interest rate for fixed interest loans, or the most recent effective rate before the restructuring calculated in accordance with contractual terms for floating-rate loans.

This discount is recognised in the net cost of risk on restructuring and is then written back through net interest income over the remainder of the period that the debt has to run.

Application of the effective interest rate

HSBC France has applied the articles 2111-1 to 2171-1 of the 2014-07 ANC regulation. HSBC France has recognised lending fees and costs on a time-apportioned basis, with effect to 1 January 2010.

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d *Debt due to credit institutions and customer accounts*

All liabilities towards banks and customers are recognised at amortised cost. These headings include repurchase transactions. Accrued interest on these liabilities is recorded in the balance sheet in an accrued interest account.

1 Principal accounting policies *(continued)*

e *Debt securities in issue*

Debt securities are classified according to their nature: certificates of deposit, interbank market securities, tradable debt securities, bonds and similar securities. This category does not include any subordinated securities, which are recorded under subordinated debt.

Accrued unpaid interest on these securities is recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

Issue or redemption premiums on bonds are amortised on an actuarial basis over the life of the bond. Issue expenses are deferred over the life of the bond on a straight-line basis.

f *Provisions*

In accordance with the article 3222 of 2014-03 ANC regulation, provisions are registered where it is probable that an outflow of resources, without an at least equivalent inflow being expected from the beneficiary (whether known or not), will be required to extinguish a legal or implicit obligation arising from past events and where the amount of the obligation can be reliably estimated.

Retirement and other benefit liabilities

HSBC France has chosen to adopt ANC recommendation 2013-02 on the rules for recognising and measuring obligations for retirement.

HSBC France provides some of its employees post-employment benefits such as pension plans, termination payments.

The costs recognised for funding these defined-benefit plans are determined using the projected unit credit method, with annual actuarial valuations being performed on each plan.

Actuarial gains or losses are recognised through profit or loss.

The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are charged to operating expenses.

The net defined-benefit liability recognised in the balance sheet represents the present value of the defined-benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of the scheme's assets. Any resulting asset from this is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined-contribution plans and state-managed retirement benefit plans, where HSBC France's obligations under the plans are equivalent to a defined-contribution plan, are charged as an expense as they fall due.

Provisions for French PEL and CEL home ownership plans and accounts

CEL home ownership accounts and PEL home ownership plans are special financial instruments introduced by law no. 65-554 of 10 July 1965. They combine a savings phase and a lending phase which are inextricably linked, the lending phase being contingent to the savings phase.

In accordance with articles 2621-1 to 2624-2 of 2014-07 ANC regulation on the accounting treatment of CEL and PEL home ownership plans and accounts with banks and institutions authorised to receive home ownership funds and to grant home ownership loans, HSBC France has provided against the adverse consequences of PEL/CEL commitments in its individual company accounts.

PEL commitments are measured by series, without any offset between series. CEL commitments are considered as one single series, distinct from the PEL series.

Provisions for the adverse consequences of these commitments are calculated using a model which takes into account:

– an estimate of future customer savings and credit behaviour, based on historical data;
– the value of various market parameters, particularly interest rates and volatility, determined from data available at the date of assessment.

1 Principal accounting policies *(continued)*

Provision for share-based payments

HSBC Group share plan

The HSBC Group share plan is a performance reward plan for retaining high-achieving employees.

HSBC France has not entered into any specific arrangements for share-based payments. It benefits from HSBC Holdings plc stock option plans (hereafter referred to as "HSBC share plans"), which set up awards of options and shares.

In 2005, the HSBC Group conducted an in-depth review of its policy for awarding options and shares to its employees. The new arrangements for free option and share plans were submitted to its Annual General Meeting in May 2005. These arrangements introduced a French sub-plan (Schedule 3 of the general rule), which respected the legal and tax regulations applicable in France. This regulation was revised in 2011 firstly, to take into account the regulatory changes impacting the plan and, secondly, to formalise the rules of the "Group Performance Share Plan", for Senior Executives. In this context, the French sub-plan (Schedule 5 of the new rules) has also been subject to a review to comply with local social and tax rules.

Since 2006, the HSBC Group set up free share award plans for certain employees, under which a fixed number of HSBC Holdings plc shares are awarded. The shares vest in the employees' ownership two or three years after they are awarded, conditional on continued employment within the HSBC Group.

No cover arrangements were put in place for the plans granted in 2009 and onwards by HSBC France. Delivery of the shares is therefore made by purchasing the shares on the market, at the plan expiry date at the latest.

In accordance with the article 624-1 of the 2014-03 ANC regulation:

– the expense is recognised on a straight-line basis over the vesting period with the counter-entry going to a provision account which is cleared on final employee vesting. The measurement of the expense is based on assumptions on the number of beneficiaries leaving and on performance conditions;

– the provision recognised is based on the closing quoted price of the HSBC Holdings plc stock.

HSBC Group share option plans

The HSBC Group Share Option Plan was a long-term incentive plan available to certain Group employees between 2000 and 2005. The aim of the plan was to raise awareness of the best-performing employees about value-creation objectives for shareholders. The options were awarded at market value and could normally be exercised from the third year and up to the tenth anniversary of being awarded, subject to vesting conditions.

HSBC Group share options without performance conditions were granted between 2001 and 2005 to certain HSBC Group employees.

Finally, share options with performance conditions were granted in 2005 under the HSBC Group Share Plan to Senior Executives in France. The award of these options is combined with a bonus to be paid at the exercise date of the options for an amount equal to the exercise price of the options awarded. These share options are subject to a double Corporate Performance Condition, which consists of an absolute Earnings Per Share measure and a Total Shareholder Return measure, based on the HSBC Group's ranking against a comparative group of 28 major banks. The options vest on expiry of a period of three years and can be exercised up to the fourth anniversary of the date of grant, after which they become void.

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g *Foreign exchange position*

With the exception of structural foreign exchange positions valued at historical cost, the asset and liability foreign exchange positions are restated at the exchange rates applicable at the period end. The resulting gains or losses are included in operating banking income or expenses.

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h *Forward foreign exchange contracts*

Forward exchange contracts that are open at the closing of the period and hedged with spot transactions are valued at the spot rate at the period end. Differences between spot and forward rates calculated on close out are recorded on a time-apportioned basis in the income statement. Outright forward exchange contracts and those hedged by forward instruments are restated at the rate for the remaining period.

Parent company financial statements (continued)

1 Principal accounting policies *(continued)*

i *Financial derivatives*

The HSBC France Group operates on all financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

Interest-rate and currency options

Options are contracts reached between two parties by which one, the buyer, is granted the right to buy or to sell an actual asset or another financial instrument called an "underlying asset" at the expiry of a certain time period, at a price agreed at the time the contract was concluded.

Option contracts result in a premium being paid by the buyer to the seller.

HSBC France has interest rate and currency options.

The basic accounting treatment principles for these various products are identical.

On closing out the contract, the notional amount of the "underlying asset", which is the subject of the option, is recorded as an off-balance-sheet item.

For income and expenses, a distinction is made between contracts for hedging, contracts entered into for market operations or for arbitration purposes:

– the income and expenditure on hedging operations is reported symmetrically to the income and expenditure of the item being hedged;
– for market transactions, the positions are revalued at each period end. For transactions quoted on an organised market or similar within the meaning of articles 2511-1 to 2516-1 of Book II – Title 5 – Chapter 1 Recognition of financial derivatives of interest rate of ANC 2014-07 regulation, changes in the value of positions are recognised through profit or loss, either by means of margin calls, or directly by means of a mathematical calculation where the options are not quoted.

Interest-rate futures (tradable futures)

The accounting treatment is identical to that set out above for options.

Currency swaps and/or interest terms (swaps, FRAs)

Currency and/or interest rate swaps are recognised in accordance with the articles 2521-1 and 2529-1 of the 2014-07 ANC regulation.

The contracts are recorded separately depending whether their purpose is to:

– hold stand-alone open positions to take advantage of any beneficial changes in interest rates;
– hedge, demonstrably from the outset, interest-rate risk affecting an item or a group of similar items or credit risk in the case of Credit Default Swaps (CDS);
– hedge and manage the entity's overall interest rate risk on assets, liabilities and off-balance-sheet items;
– to provide for specialist investment management of trading portfolios (trading business).

On the accounting side, methodology varies depending on whether the transactions are for hedging or trading business purposes.

Income on positions managed as part of a trading portfolio of swaps is recognised at market value after a reduction to reflect counterparty risk and future management expense.

In market activities, the contracts negotiated by HSBC France are revalued at market conditions after the date of the trade.

The notionals are recorded as off-balance-sheet items.

Counterparty risk on derivatives

The fair value of contracts has to take into account counterparty risk linked to contracts.

The adjustment to value for counterparty risk is at least equal to the cost in equity determined under the terms of article 2525-3 of 2014-07 ANC regulation.

1 Principal accounting policies *(continued)*

j *Deferred taxation*

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

k *Segment reporting*

This information is not available on the parent company accounts but details are given in the Notes to the consolidated financial statements (Note 10 on pages 138 to 142).

2 Loans and advances to banks

(in millions of euros)	**31.12.2014**	31.12.2013
On demand deposits[1]	**14,848.7**	21,505.9
Term deposits	**17,949.4**	20,383.9
≤ 3 months	**8,232.7**	13,914.5
> 3 months and ≤ 1 year	**5,477.5**	1,565.5
> 1 year and ≤ 5 years	**3,885.9**	4,436.2
> 5 years	**353.3**	467.7
Accrued interest	**11.3**	15.7
Total	**32,809.4**	41,905.5
Of which securities received under repurchase agreements	***23,781.8***	*28,343.4*
Of which subordinated loans	***61.9***	*61.9*
Of which eligible loans for European Central Bank or Banque de France *refinancing*		–

1 *Including overnight stock lending.*

3 Customer loans

Outstanding at 31 December

Breakdown of outstanding loans by type

(in millions of euros)	**31.12.2014**	31.12.2013
Commercial loans	**430.0**	166.4
Ordinary accounts – debit balances	**1,487.0**	1,423.9
Other customer facilities[1]	**50,376.9**	53,502.0
Total	**52,293.9**	55,092.3
Of which eligible loans for European Central Bank or Banque de France *refinancing*	***14,178.1***	*15,475.0*
1 *Including unspecified term lending*	***20.3***	*12.0*

3 Customer loans *(continued)*

Breakdown of outstanding loans by quality

(in millions of euros)	31.12.2014 Performing loans	31.12.2014 Non-performing loans	31.12.2014 Impairment on non-performing loans	31.12.2014 Total	31.12.2013 Total
Retail loans	**11,947.9**	**270.6**	**(78.9)**	**12,139.6**	11,314.9
Financial customer loans	**693.8**	**13.6**	**(3.4)**	**704.0**	615.8
Non-financial customer loans	**18,254.1**	**1,189.8**	**(522.4)**	**18,921.5**	18,186.0
Securities received under repurchase agreements	**20,451.2**	**–**	**–**	**20,451.2**	24,896.7
Accrued interest	**77.6**	**–**	**–**	**77.6**	78.9
Total	**51,424.6**	**1,474.0**	**(604.7)**	**52,293.9**	55,092.3
Of which subordinated loans				***7.1***	*8.6*
Of which gross non-performing loans				***732.5***	*778.4*
Of which gross impaired loans				***741.1***	*773.7*
Of which impairment on gross non-performing loans				***(132.7)***	*(124.7)*
Of which impairment on gross impaired loans				***(472.0)***	*(487.3)*
Of which restructured loans				***402.6***	*473.9*

Breakdown of outstanding loans by remaining contractual maturity

(in millions of euros)	31.12.2014	31.12.2013
Repayable on demand[1]	**8,798.5**	9,223.7
Term deposits	**43,417.8**	45,789.7
≤ 3 months	**14,818.4**	18,566.1
> 3 months and ≤ 1 year	**6,025.4**	5,625.9
> 1 year and ≤ 5 years	**11,133.2**	11,112.9
> 5 years	**11,440.8**	10,484.8
Accrued interest	**77.6**	78.9
Total	**52,293.9**	55,092.3

1 *Including overnight stock lending*

Breakdown by business sector

(in millions of euros)	31.12.2014	31.12.2013
Retail	**12,858.7**	11,895.4
Industrial	**1,631.3**	1,519.5
Commercial and Services	**8,170.9**	8,063.2
Real estate	**5,956.0**	6,018.1
Finance	**22,100.6**	26,188.4
Others	**1,576.4**	1,407.7
Total	**52,293.9**	55,092.3

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities

(in millions of euros)	**31.12.2014** *Carrying amount*	31.12.2013 *Carrying amount*
Treasury bills and other eligible bills	**34,484.9**	33,261.4
Trading account securities	**27,909.2**	26,579.8
Available-for-sale securities	**6,531.3**	6,622.8
Held-to-maturity securities	**–**	–
Accrued interest	**44.4**	58.8
Debt securities	**8,486.8**	9,003.2
Trading account securities	**5,001.5**	6,136.9
– bonds and other quoted securities	**5,001.5**	6,136.9
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Available-for-sale securities	**2,990.9**	2,568.6
– quoted bonds	**2,990.9**	2,568.6
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Held-to-maturity securities	**470.0**	271.3
– quoted bonds	**470.0**	271.3
– unquoted bonds, interbank market securities and tradable debt securities	**–**	–
Accrued interest	**24.4**	26.4
Of which subordinated debt	***270.0***	*304.2*
Equity shares and similar & portfolio equities	**18.7**	4.6
Trading account securities	**–**	–
– quoted shares	**–**	–
– unquoted shares and similar	**–**	–
Available-for-sale securities	**–**	–
– quoted shares	**–**	–
– unquoted shares and similar	**–**	–
Portfolio activity securities	**18.7**	4.6
– quoted portfolio activity shares	**–**	–
– unquoted portfolio activity shares	**18.7**	4.6
Total	**42,990.4**	42,269.2

Breakdown by remaining contractual maturity of treasury bills and government bonds

(in millions of euros)	**31.12.2014**	31.12.2013
Treasury bills and other eligible bills		
≤ 3 months	**4,095.5**	1,716.5
> 3 months and ≤ 1 year	**1,560.9**	3,363.0
> 1 year and ≤ 5 years	**10,526.3**	11,137.5
> 5 years	**18,257.8**	16,985.6
Accrued interest	**44.4**	58.8
Total	**34,484.9**	33,261.4
Debt securities		
≤ 3 months	**415.7**	238.0
> 3 months and ≤ 1 year	**499.4**	809.3
> 1 year and ≤ 5 years	**5,063.6**	5,302.6
> 5 years	**2,483.7**	2,626.9
Accrued interest	**24.4**	26.4
Total	**8,486.8**	9,003.2

4 Portfolio of trading, available-for-sale securities and held-to-maturity securities *(continued)*

Estimated value of the portfolio of available-for-sale and portfolio business securities

(in millions of euros)	**31.12.2014** *Net carrying amount*	**31.12.2014** *Estimated value*	31.12.2013 *Net carrying amount*	31.12.2013 *Estimated value*
Treasury bills and other eligible bills	**6,531.3**	**7,049.8**	6,622.8	7,010.6
Debt securities	**2,990.9**	**3,130.4**	2,568.6	2,633.4
Equity shares and similar and other portfolio equities	**18.7**	**20.6**	4.6	5.0
Total available-for-sale and portfolio activity securities (excluding related receivables)	**9,540.9**	**10,200.8**	9,196.0	9,649.0

The available-for-sale securities portfolio is made up mainly of fixed income securities for which the interest-rate risk is usually hedged. The portfolio valuation rules are given in Note 1 b on pages 248 to 250.

Unrealised gains and losses in available-for-sale and portfolio business securities

(in millions of euros)	**31.12.2014** *Before provisions*	*Provisions*	*Net amount*
Unrealised gains in available-for-sale and portfolio business securities[1]	**658.6**	**1.3**	**659.9**
– treasury bills and other eligible bills	**518.4**	**0.1**	**518.5**
– bonds and other fixed-income securities	**138.3**	**1.2**	**139.5**
– equity shares and similar & portfolio equities	**1.9**	–	**1.9**
Unrealised losses in available-for-sale and portfolio business securities[1]	**6.0**	**6.0**	–
– treasury bills and other eligible bills	–	–	–
– bonds and other fixed-income securities	**0.3**	**0.3**	–
– equity shares and similar & portfolio equities	**5.7**	**5.7**	–

1 *Available derivatives of partners cover: EUR -572.1 million.*

Additional information on the securities given in compliance with articles 2311-1 to 2391-1 of ANC 2014-07 regulation

Total of held-to-maturity securities sold during the period

This information is not material.

Unamortised difference between the acquisition price and the redemption price of securities

The net premium of available-for-sale and held-to-maturity securities amounted to EUR 18.4 million in 2014 and to EUR 90.0 million in 2013.

Total of securities assigned to another portfolio

No security was transferred from a portfolio to another portfolio in 2014.

5 Investments in subsidiaries and equity securities held for long-term

(in millions of euros)	**31.12.2014** ***Net carrying amount***	31.12.2013 *Net carrying amount*
Interests in subsidiaries and associates	**78.7**	84.6
Listed securities	**0.4**	0.7
− banks	**–**	–
− others	**0.4**	0.7
Non-listed securities	**78.3**	83.9
− banks	**45.0**	49.6
− others	**33.3**	34.3
Other long-term securities	**10.6**	10.5
Listed securities	**–**	–
− banks	**–**	–
− others	**–**	–
Non-listed securities	**10.6**	10.5
− banks	**–**	–
− others	**10.6**	10.5
Interests in group companies	**1,642.2**	1,709.3
Listed securities	**–**	–
− banks	**–**	–
− others	**–**	–
Non-listed securities	**1,642.2**	1,709.3
− banks	**570.1**	570.7
− others	**1,072.1**	1,138.6
Accrued interests	**–**	–
Total (including the 1976 statutory revaluation)	**1,731.5**	1,804.4

(in millions of euros)	**31.12.2014**	31.12.2013
Gross amounts at 1 January (excluding advances and accrued interests)	**1,949.0**	1,629.5
Changes in the year:		
− acquisitions of securities/share issues	**–**	572.5
− disposals/capital reductions[1]	**(56.9)**	(247.6)
− effect of foreign exchange differences	**1.2**	–
− other movements/merger	**(1.4)**	(5.4)
Gross amounts at 31 December (excluding advances and accrued interests)	**1,891.9**	1,949.0
Impairments at 1 January	**(144.5)**	(145.9)
Changes in the year:		
− new allowances	**(18.0)**	–
− release of allowances no longer required	**1.3**	1.8
− other movements	**0.8**	–
− effect of foreign exchange differences	**–**	(0.5)
Impairment at 31 December	**(160.4)**	(144.6)
Accrued interests	**–**	–
Net book value including accrued interests	**1,731.5**	1,804.4

1 *Relate mainly to share capital decrease for VME for EUR 57.7 million and for SFEF for EUR4.7 million.*

6 Intangible fixed assets

(in millions of euros)	**31.12.2014**	31.12.2013
Gross amounts at 1 January	**497.0**	490.9
Changes in the year:		
− transfers and other movements	**–**	–
− fixed asset acquisitions	**6.8**	6.1
− fixed asset disposals and other changes	**(0.3)**	–
Gross amounts value at 31 December	**503.5**	497.0
Amortisation at 1 January	**252.5**	245.9
Changes in the year:		
− charges for the period for amortisation and impairment	**6.5**	7.0
− transfers and other movements	**–**	–
− fixed asset sales, disposals and other changes	**(0.2)**	(0.4)
Amortisation at 31 December	**258.8**	252.5
Net book value of fixed assets at 31 December	**244.7**	244.5

According to the article 745-3 of 2014-03 ANC regulation, a goodwill, corresponding to the difference between the net current value shares of the merged company and the net asset value transferred, was recognised on the merger of HSBC Hervet with HSBC France in 2008 and on the merger of HSBC Private Bank France with HSBC France in 2011.

Goodwill on merger is written back through profit or loss as the assets to which it was attributed are realised in accordance with the article 745-7.

Goodwill on merger is considered to be impaired when the current value of one or more underlying assets, to which a portion of it was attributed, falls below the carrying amount of the asset(s) plus the attributed goodwill. The current value is the higher of the market value and the value-in-use (see articles 214-1 to 214-27 of 2014-03 ANC regulation).

Concerning HSBC Hervet

The goodwill on merger, amounting initially to EUR 139.5 million, was attributed proportionately to the unrealised gains (net of tax), without being reflected in the accounting records, to the following items:

(in millions of euros)	
The unrealised gain on the Baecque Beau HSBC securities	**47.7**
Unrealised gains in fixed assets	**9.6**
Unrealised gains in securities	**0.2**
Purchased goodwill (no attribution)	**82.0**
Total	**139.5**

At the end of 2014, following the realisation of part of the assets (mainly the merger of HSBC de Baecque Beau with HSBC France in 2008), and in the absence of depreciation, the goodwill on merger stood at EUR 89.4 million.

Concerning HSBC Private Bank France

At the end of 2014, the goodwill on merger, amounting to EUR 72.0 million, is fully attributed to purchased goodwill.

7 Tangible fixed assets

(in millions of euros)	31.12.2014	31.12.2013
Gross amounts at 1 January	**782.3**	755.9
Changes in the year:		
− transfers and other movements	**–**	(0.1)
− fixed asset acquisitions	**35.4**	27.8
− fixed asset disposals and other changes	**(12.5)**	(1.3)
Carrying amount at 31 December	**805.2**	782.3
Depreciation at 1 January	**558.1**	512.3
Changes in the year:		
− charges for the period for depreciation and impairment	**41.7**	46.8
− transfers and other movements	**–**	–
− fixed asset disposals and other changes	**(10.6)**	(1.0)
Depreciation at 31 December	**589.2**	558.1
Carrying amount at 31 December	**216.0**	224.2

Breakdown of tangible fixed assets by type

(in millions of euros)	31.12.2014	31.12.2013
Operating land and buildings	**11.9**	12.5
Non-operating land and buildings	**0.8**	0.8
Other tangible assets	**203.3**	210.9
Carrying amount at 31 December	**216.0**	224.2

Leasing and renting with buy option

(in millions of euros)	31.12.2014	31.12.2013
Assets under construction	**1.5**	0.3
Gross values[1]	**450.5**	278.2
Amortisation	**(110.5)**	(40.9)
Related loans	**–**	–
Total	**341.5**	237.6

1 *Main assets in 2014: road assets for EUR 203.8 million, public buildings and construction for EUR 57.9 million, machine tools for EUR 37.8 million.*

At 31 December 2014, the financial outstanding amounts to EUR 314.0 million (EUR 223.4 million in 2013) and the negative unearned finance income before deferred tax to EUR 33.0 million (EUR 13.8 million in 2013)

8 Loan impairment

(in millions of euros)	*Balance at 31.12.2013*	*Charges*	*Utilised releases*	*Available releases*	*Other changes*	***Balance at 31.12.2014***
Impairment on interbank and customer non-performing loans (excluding doubtful interest)	612.3	205.5	(96.3)	(99.6)	(17.1) [1]	**604.8**
Impairment on securities	13.7	10.1	(3.8)	(1.7)	0.1	**18.4**
Provisions for commitments by signature	4.0	2.3	–	(2.7)	0.1	**3.7**
Total of impairment and provisions recognised in cost of risk	630.0	217.9	(100.1)	(104.0)	(16.9)	**626.9**

1 *Of which discounting effect on impaired loans recognised in net operating income*	*(8.2)*
Of which effect on exchange rate variation	*0.7*

Parent company financial statements (continued)

8 Loan impairment *(continued)*

Loan impairment

(in millions of euros)	**31.12.2014**	31.12.2013
Net impairment charge for the period:		
– interbank and customer non-performing and impaired receivables (excluding doubtful interest)[1]	**(114.7)**	(77.9)
– counterparty risk on securities	**(8.4)**	(9.4)
– commitments by issuer[2]	**(0.5)**	(2.1)
– recoveries of amounts previously written off	**3.3**	2.4
Total cost of risk excluding country risk	**(119.3)**	(87.0)
Country risk	**0.2**	0.1
Total cost of risk[3]	**(119.1)**	(86.9)

1 *Of which unprovided losses on non-performing and impaired receivables.*	***(18.0)***	*(18.8)*
2 *Of which unprovided losses*	–	*(0.1)*
3 *Of which losses hedged by provisions*	***(96.4)***	*(106.6)*

9 Other assets

(in millions of euros)	**31.12.2014**	31.12.2013
Securities transactions settlement accounts	**391**	99
Sundry debtors and other receivables	**25,427**	22,349
Total	**25,818**	22,448

10 Prepayments and accrued income

(in millions of euros)	**31.12.2014**	31.12.2013
Items in course of collection from other banks	**360**	602
Other prepayments and accrued assets[1]	**138,044**	118,495
Total	**138,404**	119,097

1 *Including mark-to-market on derivatives instruments for EUR 127,883 million in 2014 and EUR 114,176 million in 2013.*

11 Treasury and interbank transactions

Deposits by banks

(in millions of euros)	**31.12.2014**	31.12.2013
On demand deposits	**12,305.2**	8,994.4
Term deposits	**28,061.0**	29,869.8
≤ 3 months	**16,232.7**	22,194.6
> 3 months and ≤ 1 year	**6,496.9**	3,339.8
> 1 year and ≤ 5 years	**3,081.4**	1,892.5
> 5 years	**2,250.0**	2,442.9
Accrued interest	**66.4**	68.8
Total	**40,432.6**	38,933.0
Of which securities given under repurchase agreements	***29,569.2***	*30,999.5*

12 Customer accounts

Outstanding at 31 December

Breakdown of customer credit balances by type of deposit

(in millions of euros)	**31.12.2014**	31.12.2013
On demand deposits	**20,387.0**	17,873.7
Special demand accounts	**7,072.5**	7,338.4
Special term accounts	**646.3**	667.9
Term accounts	**6,382.6**	7,679.0
Total customer deposits (excluding repurchase agreements)	**34,488.4**	33,559.0
Securities given under repurchase agreements	**17,895.1**	29,602.5
Accrued interest	**10.6**	21.5
Total customer credit balance accounts	**52,394.1**	63,183.0

Breakdown of customer credit balances by remaining contractual maturities

(in millions of euros)	**31.12.2014**	31.12.2013
On demand deposits	**27,459.6**	32,737.2
Term deposits	**24,923.9**	30,424.3
≤ 3 months	**20,003.7**	17,822.8
> 3 months and ≤ 1 year	**4,567.0**	12,330.6
> 1 year and ≤ 5 years	**210.2**	212.8
> 5 years	**143.0**	58.1
Accrued interest	**10.6**	21.5
Total	**52,394.1**	63,183.0

13 Bonds and other fixed income securities

(in millions of euros)	**31.12.2014**	31.12.2013
Certificates of deposit (including accrued interest)	**–**	–
Interbank market securities and tradable debt securities	**7,611**	7,481
Bonds	**6,382**	6,868
Accrued interest	**23**	93
Total	**14,016**	14,442

Breakdown of debt securities by maturity

(in millions of euros)	**31.12.2014**	31.12.2013
Debt securities	**13,993**	14,349
≤ 3 months	**4,062**	6,631
> 3 months and ≤ 1 year	**3,570**	2,894
> 1 year and ≤ 5 years	**3,887**	2,682
> 5 years	**2,474**	2,142
Accrued interest	**23**	93
Total	**14,016**	14,442

Issuances premium yet to be paid off stood at EUR 8.1 million at 31 December 2014, and EUR 11.7 million at 31 December 2013.

14 Provisions

(in millions of euros)	Balance at 31.12.2013	Charges	Release for write off	Available releases	Other movements	Balance at 31.12.2014
Provisions for commitments by signature and disputes	92.5	**4.3**	**(7.2)**	**(7.0)**	**0.1**	**82.7**
Other provisions[1]	298.7	**89.6**	**(62.8)**	**(21.8)**	**1.1**	**304.8**
Total	391.2	**93.9**	**(70.0)**	**(28.8)**	**1.2**	**387.5**

1 *Including employee benefits provision (see Note 20 "Pensions and post-employment benefits") and share-based payment provision.*

Provision on PEL/CEL home ownership products

	31.12.2014				
	PEL				CEL
(in millions of euros)	≤ 4 years	> 4 years and ≤ 10 years	> 10 years	Total	
Amounts collected	**90.0**	**132.1**	**409.1**	**631.2**	**103.8**
Outstandings collected	**0.1**	**1.1**	**1.3**	**2.5**	**6.9**
Provisions	**(2.4)**	**(0.7)**	**(1.7)**	**(4.8)**	**(0.1)**
Allocation to provisions/reversal	**(1.8)**	**0.6**	**4.6**	**3.4**	**0.8**

15 Other liabilities

(in millions of euros)	31.12.2014	31.12.2013
Securities transactions settlement accounts	**274**	7
Sundry creditors[1]	**8,580**	8,897
Short position and securities received under repurchase agreements confirmed resold	**35,876**	36,787
Total	**44,730**	45,691

1 *Of which deposits on derivatives received in 2014: EUR 8,310 million and in 2013 EUR 8,686 million.*

16 Accruals and deferred income

(in millions of euros)	31.12.2014	31.12.2013
Items in course of collection from other banks	**316**	522
Accruals and deferred income[1]	**137,330**	115,839
Total	**137,646**	116,361

1 *Including mark-to-market on derivatives instruments for EUR 128,115 million in 2014 and EUR 111,782 million in 2013.*

17 Subordinated debt

(in millions of euros)	**31.12.2014**	31.12.2013
Subordinated notes	**15.0**	15.0
Undated subordinated notes	**16.2**	16.2
Subordinated debts	**260.0**	–
Accrued interest	**0.3**	0.2
Total	**291.5**	31.4

Securities issued by HSBC France

Subordinated securities issued by HSBC France, in euros and other currencies, are liabilities which, in the event of liquidation, will only be repaid after the interests of other creditors have been extinguished but before repayment of the holders of participating securities or equity.

Redeemable subordinated securities

(in millions of euros)	Date of issue	Date of maturity	Interest type	Currency of issue	**31.12.2014**	31.12.2013
Redeemable subordinated securities	15.12.2000	15.12.2015	Floating rate	EUR	**15.0**	15.0
Accrued interest					**–**	–
Total for securities issued by HSBC France (including accrued interest)					**15.0**	15.0

Participating securities: undated subordinated securities and debt

(in millions of euros)	Date of issue	Nominal rate	Issue currency	**31.12.2014**	31.12.2013
Undated subordinated securities	22.07.1985	Effective monthly rate − 0.25	FRF	**16.2**	16.2
Accrued interest				**0.1**	0.2
Total (including accrued interest)				**16.3**	16.4

Subordinated debts

(in millions of euros)	Date of issue	Date of maturity	Interest type	Issue currency	**31.12.2014**
Subordinated debts	22.12.2014	22.12.2029	Floating rate	EUR	**260.0**
Accrued interest					**0.2**
Total (including accrued interest)					**260.2**

18 Share capital

	31.12.2014		31.12.2013	
(shares of 5 euros)	***Number of shares***	***Total (in thousands of euros)***	*Number of shares*	*Total (in thousands of euros)*
At 1 January	**67,437,827**	**337,189**	67,437,827	337,189
− subscription options exercised	**–**	**–**	–	–
− new capital issued − merger	**–**	**–**	–	–
− reduction of capital	**–**	**–**	–	–
At 31 December	**67,437,827**	**337,189**	67,437,827	337,189

Voting rights

At 31 December 2014, the total of voting rights stood at 67,437,827.

19 Equity

(in millions of euros)	**31.12.2014** Before appropriation of profit	**31.12.2014** After appropriation of profit	31.12.2013 Before appropriation of profit	31.12.2013 After appropriation of profit
Called-up share capital	**337.2**	**337.2**	337.2	337.2
Share premium account	**16.1**	**16.1**	16.1	16.1
Reserves	**1,042.9**	**1,042.9**	1,043.0	1,043.0
– legal reserve	**38.1**	**38.1**	38.1	38.1
– long-term gains reserve	**405.5**	**405.5**	405.5	405.5
– revaluation reserve	**4.9**	**4.9**	5.0	5.0
– extraordinary and other reserve	**304.8**	**304.8**	304.8	304.8
– free reserve	**294.1**	**294.1**	294.1	294.1
– revaluation reserve on past service costs	**(4.5)**	**(4.5)**	(4.5)	(4.5)
Retained earnings	**3,357.9**	**3,751.0**	3,146.6	3,358.0
Interim dividend	–	–	(120.0)	–
Special tax-allowable reserves	**19.7**	**19.7**	20.1	20.1
Net profit for the year	**393.1**	–	331.4	–
Equity	**5,166.9**	**5,166.9**	4,774.4	4,774.4

Changes in equity in 2014

(in millions of euros)	**2014**
Balance at 1 January	**4,774.4**
Net Profit for the year	393.1
New shares issued upon exercise of stock options	–
Reduction of capital	–
Interim dividend	–
Others	(0.6)
Balance at 31 December	**5,166.9**

Legal reserve

This reserve is built up by appropriating at least one-twentieth of the year's profit. This appropriation ceases to be mandatory once this reserve reaches one-tenth of share capital. It is not distributable.

Net long-term gains reserve

Distributing this reserve would lead to an additional tax charge equal to the difference between standard tax rate and reduced tax rate.

Revaluation reserve (1976 revaluation)

This reserve could be incorporated into capital, but it cannot be distributed or used to offset losses.

Other reserves

Amounts put into reserves over five years ago would be subject to a levy if they were to be distributed.

For distributions paid on or after 1 January 2000, HSBC France can charge the dividends against profits liable to corporate income tax for accounting periods ended at most five years ago, starting with the oldest, in application of the decree of 21 December 1999.

20 Pensions, post-employment benefits

(in millions of euros)	**31.12.2014**	31.12.2013
Provision for employee-related commitments[1]	**153.9**	156.9

1 *Including defined benefits pension plans for Executive Directors for EUR 5.8 million in 2014 and for EUR 5.3 million in 2013.*

Principal actuarial assumptions of the post-employment defined benefit plans

The main actuarial assumptions used for measuring pension plan commitments and post-employment healthcare benefits, which serve as the basis for calculating the expense for the relevant accounting periods, are as follows:

(in %)	*Discount rate*	*Expected rate of return on plan assets*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pensions*	*Rate of pay increase*	*Mortality rate*
At 31 December 2014	**2.00**	**2.00**[1]	**1.50**	**1.50**	**2.70**	**–**[2]
At 31 December 2013	3.00	3.00[1]	2.00	2.00	3.00	–[2]

1 *Expected rate of return on bonds.*
2 *HSBC France uses the tables TGH and TGF05 for pension obligations.*

HSBC France determines discount rates in consultation with its actuaries based on the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the pension obligation. The expected rate of return on plan assets is determined in consultation with HSBC's actuaries, based on historical market returns, adjusted for additional factors such as the current rate of inflation and interest rates.

Provision recognised

(in millions of euros)	**31.12.2014**	31.12.2013
Present value of benefit obligations	**165.2**	168.6
Fair value of plan assets	**(11.3)**	(11.7)
Net liability recognised	**153.9**	156.9

21 Off-balance sheet items

(in millions of euros)	**31.12.2014**	31.12.2013
A − Loan commitments		
Commitments given	**23,390**	21,619
Refinancing agreements and other financing commitments in favour of banks	**2,259**	2,323
In favour of customers	**21,131**	19,296
− confirmed credit facilities	**21,074**	19,249
− acceptances payable and similar instruments	**57**	47
Commitments received	**3,550**	5,426
Refinancing agreements and other financing commitments in favour of banks	**3,550**	5,426
B − Guarantee commitments		
Commitments given	**4,044**	4,372
Guarantees, acceptances and other security to banks	**991**	1,093
Guarantees, acceptances and other securities to customers	**3,053**	3,279
Commitments received	**11,722**	10,064
Guarantees, acceptances and other security from banks	**11,722**	10,064

Loans pledged for Covered Bonds issues

(in millions of euros)	**31.12.2014**
Covered bonds	**6,098**
Loans pledged on guarantee 3G and TRICP	**3,386**
Loans pledged on guarantee CCBM	**4,694**
Securities pledged on guarantee	**3,116**
Total	**17,294**

22 Derivatives

Exchanges rate contracts

(in billions of euros)	31.12.2014				31.12.2013			
	Fair value 31.12.2014	***Hedging contracts*** [1]	***Trading contracts*** [1]	***Total*** [1]	*Fair value 31.12.2013*	*Hedging contracts* [1]	*Trading contracts* [1]	*Total* [1]
Unconditional transactions	**(0.5)**	**83.3**	**3,802.1**	**3,885.4**	(7.4)	5.9	5,417.0	5,422.9
Exchange traded	**–**	**–**	**122.1**	**122.1**	–	–	132.6	132.6
– interest rate	**–**	**–**	**122.1**	**122.1**	–	–	132.6	132.6
– exchange rate	**–**	**–**	**–**	**–**	–	–	–	–
– equity	**–**	**–**	**–**	**–**	–	–	–	–
Non-exchange traded	**(0.5)**	**83.3**	**3,680.0**	**3,763.3**	(7.4)	5.9	5,284.4	5,290.3
– futures	**–**	**–**	**236.8**	**236.8**	–	–	338.6	338.6
– interest rate	**(0.8)**	**81.8** [2,3]	**3,262.8**	**3,344.6**	(2.6)	0.3	4,775.0	4,775.3
– exchange rate	**0.1**	**0.6**	**44.4**	**45.0**	(5.1)	0.2	50.2	50.4
– other contracts	**0.3**	**0.9**	**136.1**	**136.9**	0.3	5.4	120.6	126.0
Conditional transactions	**(0.6)**	**0.4**	**519.1**	**519.4**	(1.6)	0.6	486.4	487.0
Exchange traded	**–**	**–**	**40.9**	**40.9**	–	–	35.0	35.0
Interest rate	**–**	**–**	**3.3**	**3.3**	–	–	4.3	4.3
Exchange rate	**–**	**–**	**37.6**	**37.6**	–	–	30.7	30.7
Other contracts	**–**	**–**	**–**	**–**	–	–	–	–
Non-exchange traded	**(0.6)**	**0.4**	**478.2**	**478.6**	(1.6)	0.6	451.4	452.0
Caps and floors	**–**	**0.2**	**118.5**	**118.7**	–	0.1	140.5	140.6
Swaptions and options	**(0.6)**				(1.6)			
– bought		**0.2**	**58.6**	**58.7**		0.5	70.6	71.1
– sold		**–**	**301.1**	**301.1**		–	240.3	240.3
Total derivatives		**83.7**	**4,321.1**	**4,404.8**		6.5	5,903.4	5,909.9

1 *Notional contract amounts.*
2 *Interest rate swaps accounted for as micro-hedging are used to hedge interest and currency rate risk of an asset or a liability at the beginning of the transaction. At 31 December 2014, micro-hedging interest rate swaps have been reported in "microhedge contract" whereas there were integrated in "trading" in December 2013.*
3 *Interest rate swaps accounted for as macro-hedging are used to hedge and to manage the global interest rate risk of portfolio of assets and liabilities of the bank. At 31 December 2014, macro-hedging interest rate swaps have been reported in "macrohedge contract" whereas there were integrated in "trading" in December 2013.*

22 Derivatives *(continued)*

Other information on derivatives

(in billions of euros)	**31.12.2014**	31.12.2013
Microhedge contract	**13.6**[1]	0.3
Macrohedge contract	**68.3**[2]	–
Trading	**3,262.8**	4,775.0
Other	**–**	–

1 *Note 22.2 on page 269.*
2 *Note 22.3 on page 269.*

Derivatives: maturity analysis

	31.12.2014			
(in billions of euros)	***≤ 1 year***	***> 1 year and ≤ 5 years***	***> 5 years***	***Total***
Derivatives:				
Exchange contracts	**12.2**	**15.8**	**17.1**	**45.1**
Interest rate contracts	**1,676.0**	**1,505.1**	**1,042.7**	**4,223.8**
Others	**135.1**	**0.8**	–	**135.9**
Total	**1,823.3**	**1,521.7**	**1,059.8**	**4,404.8**

Risk-weighted assets – Amount of Exposure At Default (EAD) for derivatives contracts

(in millions of euros)	**31.12.2014**	31.12.2013
A – Contracts concluded under Master agreement with close-out netting	**13,290.8**	5,383.0
1. Transactions with banks from OECD countries	**13,241.1**	5,335.2
2. Transactions with customers and banks localised outside OECD countries	**49.7**	47.8
B – Other contracts	**926.1**	448.1
1. Transactions with banks from OECD countries	**895.2**	409.9
− interest rate contracts	**839.7**	350.7
− exchange contracts	**36.5**	59.2
− equity derivatives contracts	**19**	–
− commodities contracts	**–**	–
2. Transactions with customers and banks localised outside OECD countries	**30.9**	38.2
− interest rate contracts	**21.9**	32.3
− exchange contracts	**9.0**	5.9
− equity derivatives contracts	**–**	–
Total Exposure At Default[1]	**14,216,9**	5,831.1
Corresponding risk-weighted assets (RWA)	***2,839,4***	*1,639.0*

1 *Significant increase linked to the enforcement of CRD 4 (Clearing Houses exposures taking into account).*

Clearing effect on Exposure At Default

(in millions of euros)	**31.12.2014**	31.12.2013
Original exposure before credit risk mitigation (including close-out-netting)	**165,647.9**	69,364.6
Exposure mitigation due to the close-out-netting	**(144,045.2)**	(55,663.2)
Exposure mitigation due to credit mitigation	**(7,385.8)**	(7,870.3)
Exposure value after credit risk mitigation (including close-out-netting)	**14,216.9**	5,831.1

23 Net interest income

(in millions of euros)	**31.12.2014**	31.12.2013
Interest and similar income		
Banks and financial institutions	**166.4**	231.5
Customers	**996.0**	970.5
Bonds and other fixed-income securities	**477.0**	629.3
Total	**1,639.4**	1,831.3
Interest and similar expenses		
Banks and financial institutions	**239.4**	299.8
Customers	**152.8**	170.8
Subordinated liabilities	**1.5**	1.9
Other bonds and fixed-income securities	**209.9**	368.6
Total	**603.6**	841.1

24 Fixed-income securities

(in millions of euros)	**31.12.2014**	31.12.2013
Income		
Available-for-sale and similar & portfolio activity securities	**–**	–
Interests in subsidiaries and associates and other long-term securities	**–**	–
Interests in group companies	**96.3**	45.3
Total	**96.3**	45.3

25 Breakdown of fees

(in millions of euros)	**31.12.2014**	31.12.2013
Fees		
Income	**751.3**	776.2
On transactions with banks	**3.4**	4.4
On transactions with customers	**96.0**	109.8
On foreign exchange transactions	**1.9**	2.5
On primary securities market activities	**53.6**	42.6
On provision of services for third parties	**434.8**	451.1
On commitments	**114.7**	114.9
Other commission	**46.9**	50.9
Expenses	**(170.1)**	(187.1)
On transactions with banks	**(6.5)**	(9.2)
On corporate actions	**(25.6)**	(23.7)
On forward financial instrument activities	**(10.4)**	(12.3)
On provision of services for third parties	**(114.5)**	(129.3)
On commitments	**(5.0)**	(5.5)
Other commission	**(8.1)**	(7.1)
Total fees	**581.2**	589.1

26 Gains and losses on portfolio business transactions

(in millions of euros)	31.12.2014	31.12.2013
Gains or losses		
Trading securities	**1,928.9**	(251.1)
Foreign exchange transactions	**56.2**	71.4
Forward financial instruments	**(1,666.7)**	526.4
Total	**318.4**	346.7

27 Gains or losses on available-for-sale securities

(in millions of euros)	31.12.2014	31.12.2013
Results for available-for-sale securities		
Gains or losses	**18.5**	5.9
Impairment	**(1.1)**	4.7
– charges	**(4.4)**	(3.0)
– releases	**3.3**	7.7
Results for portfolio activity securities		
Gains or losses	**3.8**	(0.6)
Impairment	**0.5**	0.9
– charges	**(0.1)**	(0.5)
– releases	**0.6**	1.4
Total	**21.7**	10.9

28 General operating expenses

(in millions of euros)	31.12.2014	31.12.2013
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation[1]	**(762.8)**	(784.8)
Pension expenses	**(98.1)**	(95.9)
Profit sharing	**(6.3)**	(9.9)
Incentive plan	**(21.5)**	(20.0)
Compensation expenses subtotal	**(888.7)**	(910.6)
Other administrative expenses	**(485.5)**	(511.7)
Total operating expenses	**(1,374.2)**	(1,422.3)

1 *Including EUR 18,8 million for Executive Committee compensation and EUR 0,3 million in Directors' fees paid to Directors for 2014 and EUR 14.8 million for Executive Committee compensation and EUR 0.3 million in Directors' fees paid to Directors for 2013.*

Share award plans

Allowance was 34 per cent released for the 2011 plan, 66 per cent released for the 2012 plan and 33 per cent released for the 2012 English sub plan, 33 per cent released for the 2013 English sub plan released, against shares attribution for EUR 16.2 million.

Regarding the ongoing plans, the final charge for HSBC France is not yet known as the attributed shares were not bought by the Trust.

The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on the quoted price as at 31 December 2014.

At 31 December 2014, allowance stood at EUR 3.4 million for the 2012 plan, at EUR 8.5 million for the 2013 plan and EUR 7.4 million for the 2014 plan.

28 General operating expenses *(continued)*

2015 share award plan

The allowance defined is hence accounted on a linear basis on the employees' grant acquisition period based on awarding hypothesis.

At 31 December 2014, allowance stood at EUR 1.9 million.

29 Gains or losses on disposals of fixed assets

(in millions of euros)	**31.12.2014**	31.12.2013
Gains or losses on held-to-maturity securities	–	–
Gains or losses on tangible and intangible fixed assets[1]	**7.7**	2.6
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies[2]	**(15.2)**	7.4
Total	**(7.5)**	10.0

1 *In 2014, gains on disposal of Saint Ferréol for EUR 6.9 million and Ballande branch for EUR 1.0 million. In 2013, gains on disposal of Jussieu branch for EUR 1.4 million and Saint Raphaël branch for EUR 1.0 million.*

2 *In 2014, provisions on investments of Malesherbes-Anjou for EUR 16.2 million. In 2013, gains on disposal of Robertet S.A. shares for EUR 2.7 million, gains on disposal of Lafarge Finance Ltd shares for EUR 1.0 million, gains on disposal of Eurofin Capital Partners shares for EUR 0.9 million, remainder of sale's price of Louvre Gestion International shares in 2011 for EUR 1.5 million, reversal of provisions on investments in Subsidiaries for EUR 0.6 million and various gains on disposal of shares for EUR 0.6 million.*

30 Corporate income tax

(in millions of euros)	**31.12.2014**	31.12.2013
Current tax		
At standard rate	**(107.1)**	(112.8)
At reduced rate	–	–
Deferred taxation	**(14.0)**	(6.1)
Total	**(121.1)**	(118.9)

Deferred tax is calculated according to the principles set out in Note 1 j on page 255.

The rates used for calculating taxes are:

(in %)	**Payable 2015**	Payable 2014	Payable 2013
Standard rate	**33.33**	33.33	33.33
Reduced rate (PVLT gains rate)	**4.00**	4.00	4.00
Reduced rate (gains on disposal of property to SIIC)	**19.00**	19.00	19.00
Reduced rate (common funds on risk placement)	**15.00**	15.00	15.00
Tax contribution			
CSB	**3.3**	3.3	3.3
Exceptional contribution	**10.7**	10.7	5.0
Deferred taxation			
Standard rate on DT	**33.30**	33.33	33.33
Reduced rate on DT	**4.00**	4.00	4.00
Tax contributions to apply in the periods in which the assets will be realised or the liabilities settled			

At 31 December 2014, deferred taxes are calculated on the taxation discrepancies generated by temporary differences.

30 Corporate income tax *(continued)*

Tax group

Since 2001, the parent company of the tax group has been HSBC Bank plc Paris Branch.

In 2014, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 73.6 million. The proportion of benefits passed on to HSBC France was EUR 33.3 million.

In 2013, tax benefits allowed by HSBC Bank plc to the HSBC France group amounted to EUR 61.9 million. The proportion of benefits passed on to HSBC France was EUR 40.3 million.

These benefits are recognised in their entirety under the heading “Taxes”.

Deferred tax in the balance sheet

The net deferred tax receivable recognised in the balance sheet at 31 December 2014 was EUR 94.7 million compared with EUR 108.8 million at 31 December 2013.

At 31 December 2014 this receivable is made up of deferred tax assets of EUR 124.8 million against EUR 136.1 million at 31 December 2013 and a deferred tax liability of EUR 30.1 million compared with EUR 27.3 million at 31 December 2013.

CICE allocation

HSBC France group benefited from a EUR 7.2 million tax credit in respect of CICE (*Crédit d'impôt Compétitivité Emploi*) for the fiscal year 2014.

Within the framework of the allocation of CICE, HSBC France group backed the benefit of the tax credit to a pool of expenses and investments for a global amount of EUR 97.8 million dedicated to the improvement of products and services to customers as well as enhancement of the bank's efficiency. Those expenses are broken down into the following categories:

- premises: investments in the development and refurbishment of the branch network energy saving schemes and refurbishment of headquarters;
- information and technology innovative investments: expenses were dedicated to the development of enhanced commercial softwares, optimization of payment hubs, continuous improvement of processes and specific needs relating to regulation;
- training: representing more than three hundreds and ten thousands training hours. Staff benefited from numerous courses during the year 2014 with diploming path language training courses as well as safety and health at work;
- Recruitment: CICE also allowed to increase significantly the number of recruitments compared to the previous year.

31 Legal proceedings and regulatory matters relating to HSBC group entities generally

HSBC group entities, including HSBC France, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and on pages 100 to 102 of the 2014 Registration Document, HSBC France considers that none of these matters is significant,. HSBC France recognizes 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 recognized does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2014.

Anti-money laundering and sanctions-related

In December 2012, HSBC Holdings plc ("HSBC Holdings" or "HSBC"), the bank's ultimate parent company, HSBC North America Holdings ("HNAH") and HSBC Bank USA, N.A. ("HBUS") entered into agreements with US and UK government agencies regarding past inadequate compliance with the US Bank Secrecy Act ("BSA"), Anti-Money Laundering ("AML") and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement with the US Department of Justice ("DoJ"), the US Attorney's Office for the Eastern District of New York, and the US Attorney's Office for the Northern District of West Virginia (the "US DPA"). HSBC Holdings entered into a two-year deferred prosecution agreement with the New York County District Attorney ("DANY") (the "DANY DPA"). HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the Federal Reserve Board ("FRB").

In addition, HSBC Bank USA entered into a civil money penalty consent order with FinCEN and a separate civil money penalty order with the Office of the Comptroller of the Currency ("OCC"). HSBC Bank USA also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC's then most recent report of examination and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise wide compliance program.

HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ("OFAC") regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK Financial Conduct Authority ("FCA") to comply with certain forward-looking AML- and sanctions-related obligations.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling USD 1.9 billion to US authorities. Under these agreements, HSBC Holdings has also certain obligations to ensure that entities in the HSBC Group, including HSBC Bank plc and its subsidiaries (including HSBC France), comply with certain requirements. Steps continue to be taken to implement ongoing obligations under the US DPA, FCA direction, and other settlement agreements.

On 1 July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of that agreement. Under the agreements with the DoJ, FCA, and the FRB, an independent monitor (who is, for FCA purposes, a "skilled person" under Section 166 of the Financial Services and Markets Act) is evaluating HSBC's progress in fully implementing its obligations under the agreements and will produce regular assessments of the effectiveness of HSBC's Compliance function. Michael Cherkasky began work as the independent monitor on 22 July 2013.

31 Legal proceedings and regulatory matters relating to HSBC group entities generally *(continued)*

HSBC Holdings has fulfilled all of the requirements imposed by the DANY DPA which expired by its terms at the end of the two year period of that agreement in December 2014. If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DoJ charges against those entities will be dismissed at the end of the five-year period of that agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to any matters that are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA.

The settlement with US and UK authorities has resulted in private litigation, and does not preclude further private litigation relating to HSBC's compliance with applicable AML, BSA and sanctions laws or other regulatory or law enforcement actions for AML, BSA or sanctions matters not covered by the various agreements.

Investigations and reviews into the setting of London interbank offered rates, European interbank offered rates and other benchmark interest and foreign exchange rates

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 London interbank offered rates ("Libor"), European interbank offered rates ("Euribor") and other benchmark interest and foreign exchange rates. As certain HSBC entities are members of such panels, HSBC and/or its subsidiaries (including HSBC France whose involvement is limited to the extent that it is a member of the Euribor panel) have been the subject of regulatory demands for information and are cooperating with those investigations and reviews.
On 4 December 2013, the European Commission (the "Commission") announced that it had imposed fines on eight financial institutions under its cartel settlement procedure for their participation in illegal activity related to euro interest rate derivatives and/or Yen interest rate derivatives. Although HSBC was not one of the financial institutions fined, the Commission announced that it had opened proceedings against HSBC entities (HSBC Holdings, HSBC Bank Plc and HSBC France) in connection with its Euribor-related investigation of Euro interest rate derivatives only. This investigation will continue under the standard Commission cartel procedure. On 21 May 2014, these HSBC entities received a Statement of Objections from the Commission, alleging anticompetitive practices in connection with the pricing of euro interest rate derivatives. The Statement of Objections sets out the Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC responded partially to the Commission's Statement of Objections on 14 November 2014, and will have the possibility to complete its response on a date to be decided upon by the Commission, once various procedural issues are resolved.

As for each of these ongoing regulatory investigations, reviews and proceedings, there is a high degree of uncertainty as to the terms on which they will be resolved and the timing of such resolutions, including the amounts of fines and/or penalties. As matters progress, it is possible that the fines and/or penalties imposed could be significant.

31 Legal proceedings and regulatory matters relating to HSBC group entities generally *(continued)*

In November 2013, HSBC and other panel banks were also named as defendants in a putative class action filed in the US District Court fot the Southern District of New York on behalf of persons who transacted in euro futures contracts and other financial instruments related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the CEA, and state law. On 2 May 2014, the plaintiffs filed a second amended complaint. On 3 October 2014, the plaintiffs filed a third amended complaint. HSBC intends to respond to the third amended complaint after the expiration of the Court ordered stay, currently in force until May 2015.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of such private lawsuits, including the timing and potential impact on HSBC.

Credit default swap regulatory investigation and litigation

In July 2013, various HSBC entities, including HSBC France, received a Statement of Objections from the European Commission (the "Commission") relating to its ongoing investigation of alleged anti-competitive activity by a number of market participants in the credit derivatives market between 2006 and 2009. The Statement of Objections sets out the European Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC has submitted a response to the Commission and with reference to HSBC France, the point made was that there was no real nexus between the Commission's alleged case and HSBC France's activities. HSBC attended an oral hearing in May 2014 at wich the other defendants were also present. Following the oral hearing the Commission decided to conduct a further phase of investigation before deciding whether or how to proceed with the case. HSBC is cooperating with this further investigation.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or impact on HSBC.

32 Presence in non-cooperative States or territories

HSBC France does not hold any direct or indirect presence in any non-cooperative States or territories in accordance with the article 238-0 A of the General Tax Code.

Statutory Auditors’ report on the annual financial statements

This is a free translation into English of the statutory auditor's report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures. This report also includes information relating to the specific verification of information given in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2014

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2014, on:

– the audit of the accompanying annual financial statements of HSBC France ;
– the justification of our assessments ;
– the specific verifications and information required by law.

These annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these annual financial statements based on our audit.

I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the annual financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2014 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in Note 1 to the annual financial statements regarding the first application of Regulation n° 2014-07 related to the annual accounts for the banking sector.

II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

– your company accounts for impairment losses to cover the credit and counterparty risks inherent to its activities (note 1.c to the company financial statements). We have reviewed the control procedures relating to credit and counterparty risk monitoring, the assessment of risks of non-recoverability and the calculation of the individual impairment.
– your company holds positions in securities and financial instruments (notes 1.b and 1.i to the company financial statements). We have examined the control procedures for the accounting classification of these positions and for determining the parameters used to value them. We have verified the appropriateness of the accounting policies selected by your company and have satisfied ourselves that they are applied correctly.
– your company recognizes provisions to cover risks and litigations related to its activity (notes 1.f and 31 to the company financial statements). We have examined the methodology used to measure these provisions, as well as the main assumptions applied.

These assessments were made as part of our audit of the annual financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the annual financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to shareholders with respect to the financial position and the annual financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code ("Code de commerce") relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the annual financial statements or with the underlying information used to prepare these annual financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders has been properly disclosed in the management report.

Paris-La Défense and Paris, on the 27 February 2015

KPMG Audit FS II	BDO France – Léger & Associés
Pascal Brouard	Fabrice Chaffois
Partner	*Partner*

HSBC France's principal subsidiaries and investment policy

HSBC France group's principal subsidiaries at 31 December 2014

Commercial Banking

Distribution	HSBC Factoring (France) (100%)

Global Banking and Markets

Real estate	Foncière Elysées (100%) HSBC Real Estate Leasing (France) (100%)
Structures financing and Global Banking	HSBC SFH (France) (100%) Société Financière et Mobilière (100%) HSBC Leasing (France) (100%) HSBC Leasing (Belgium) (100%) CCF Charterhouse GmbH (100%)

Asset Management

France	HSBC Global Asset Management (France) (100%) HSBC Epargne Entreprise (France) (100%) HSBC REIM (France) (100%)
Outside France	HSBC Global Asset Management (Switzerland) (50%)

Insurance

France	HSBC Assurances Vie (France) (100%)

Subsidiaries and equity investments

France	Valeurs Mobilières Elysées (100%) Société Française et Suisse (100%) Société Immobilière Malesherbes Anjou (100%)
Outside France	Charterhouse Management Services Ltd (100%)

- *Stated percentages indicate the group's percentage of control.*
- *The subsidiaries are classified in the area where they principally operate.*

Summary business activities of HSBC France group's principal subsidiaries at 31 December 2014

Commercial Banking

(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
HSBC Factoring (France)	**2,037,425**	1,900,483	**81,154**	72,094	**9,060**	9,582	**100.0**	100.0

HSBC Factoring (France)'s activity grew by 19 per cent in 2014, with gross turnover of EUR 12.6 billion at the end of December 2014. Thus the growth of HSBC Factoring France remained higher than the market in 2014.

Net operating income before provisions amounted to EUR 28.2 million, slightly decreasing compared to 2014 (-1 per cent), costs were stable from December 2013 to December 2014, the cost of risk was below the standards of the profession to 0.020 per cent and the pre-tax contribution to group profit came to EUR 13.3 million.

At 31 December 2014, the cost efficiency ratio amounted to 44 per cent compared with 43 per cent in 2013.

Global Banking and Markets

(in thousands of euros)

	Total assets 2014	Total assets 2013	Shareholders' funds* 2014	Shareholders' funds* 2013	Net profit 2014	Net profit 2013	Holding 2014	Holding 2013
HSBC SFH (France)	**4,447,942**	4,440,204	**115,726**	114,314	**1,412**	518	**100.0**	100.0

HSBC SFH (France) is a company dedicated to refinancing HSBC France by issuing covered bonds secured by home loans (cover pool). HSBC SFH (France) launched its first issue on 20 January 2010 for an amount of EUR 1.5 billion, followed by three issues of CHF 200 million each, in the same year. During 2013, the company completed two bond issues: in April for an amount of EUR 1.25 billion and in October for an amount of EUR 1 billion.

At 31 December 2014, issues totalled EUR 4.2 billion against a cover pool of EUR 6.1 billion.

	Total assets 2014	Total assets 2013	Shareholders' funds* 2014	Shareholders' funds* 2013	Net profit 2014	Net profit 2013	Holding 2014	Holding 2013
HSBC Leasing (France)	**2,033,283**	1,915,688	**143,933**	168,587	**(24,653)**	(20,479)	**100.0**	100.0

HSBC Leasing (France) specialises in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. It operates more particularly in the aeronautics sector by financing assets on behalf of airlines. The equity interests in 2014 totalling EUR 1.93 billion, an increase of 8% compared to 2013.

Due to the structure of the business, revenue is mainly composed of interest expense on financing raised on behalf of its subsidiaries and dividend paid by the subsidiaries. Pursuant to current dividend payment strategy, a very small fraction of the profit of the subsidiaries is distributed up. Hence, ongoing negative PBT at HSBC Leasing (France) solo account level.

	Total assets 2014	Total assets 2013	Shareholders' funds* 2014	Shareholders' funds* 2013	Net profit 2014	Net profit 2013	Holding 2014	Holding 2013
HSBC Real Estate Leasing (France)	**1,249,662**	1,137,605	**82,211**	81,002	**8,740**	7,930	**100.0**	100.0

The control of cost of risk and the operating expenses reduction, allow a significant increase in net profit of this real estate leasing specialist subsidiary.

Asset Management

(in thousands of euros)

	Total assets 2014	Total assets 2013	Shareholders' funds* 2014	Shareholders' funds* 2013	Net profit 2014	Net profit 2013	Holding 2014	Holding 2013
HSBC Global Asset Management (France)	**158 479**	153,987	**75 926**	79,835	**29 298**	19,625	**100.0**	100.0

Profit before tax was up, reflecting the impact of inflows on long-term products and rising markets. Assets managed and distributed amounted to EUR 73 billion compared with EUR 65 billion at end 2013, an increase of 10 per cent. The increase was due to net inflows of EUR 4.2 billion in fixed-income products, EUR 713 million net inflows in money market products partly offset by EUR 431 million net outflows in equity-based and diversified products, while the total value effect on assets amounted to EUR 4.8 billion. Both Institutional and Retail Group customers made a positive contribution to growth, mainly for fixed-income products. HSBC Global Asset Management (France) continued to leverage on its expertise within HSBC Group for fixed income investments, which contributed to the development of the « cross border » customer base. In 2014, HSBC Global Asset Management (France) kept improving its organization efficiency while making its systems and processes more robust and mutualised, as well as improving its risk control.

* *Before net profit appropriation.*

HSBC France's principal subsidiaries and investment policy (continued)

Asset Management (continued)
(in thousands of euros)

	Total assets		Shareholders' funds*		Net profit		HSBC France group's percentage holding	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
HSBC Epargne Entreprise (France)	**69,562**	59,314	**32,688**	36,563	**(3,950)**	(3,876)	**100.0**	100.0
	HSBC Epargne Entreprise (France), a credit institution specialising for the HSBC Group in France in holding employee savings accounts and a wholly-owned subsidiary of HSBC France, has a clientele of 8,100 companies and manages 280,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totalling EUR 4 billion at 30 June 2014, making the Group the seventh-largest employee savings company. Its products are distributed either directly or *via* the HSBC Group distribution network in France and partner networks, covering the needs of companies of all sizes.							
HSBC REIM (France)	**14,614**	15,147	**9,267**	9,713	**5,726**	4,397	**100.0**	100.0
	HSBC REIM (France) is the Asset Management subsidiary specialising in real estate management for third parties. At 31 December 2014, the market value of assets under management was EUR 1.96 billion. The main fund managed, Elysées Pierre, with 125 properties, is a SCPI real estate investment trust invested primarily in offices in the Paris region. The fund has a yield-based strategy, which over the last five years has resulted in a growing or steady annual dividend. Gross inflows amounted to EUR 152 million in 2014. Net profit of HSBC REIM (France) was up 31 per cent compared with 2013, due to increased inflows. 70 per cent of its net operating income of EUR 14.5 million came from recurring commission income for property management services and 30 per cent from commission income within the framework of the capital increases of its non-trading property company (SCPI) Elysées Pierre.							

Insurance
(in thousands of euros)

HSBC Assurances Vie (France)	**21,721,677**	20,699,840	**516,636**	516,283	**60,837**	47,118	**100.0**	100.0
	HSBC Assurances Vie (France) manufactures a wide range of products and services to meet HSBC Group customers' needs (individuals, professionals and companies) in terms of life insurance, pension and protection. Following the level of sale (Gross written premiums) for EUR 1.9 billion in 2014 (an increase of 3 per cent compared to 2013), HSBC Assurances Vie continued its growth in 2014 with positive net new money for EUR 109.7 million (including EUR 381.1 million for HSBC France Retails Network) and AUMs which look up at EUR 18.5 billion for 2014 YTD (+3 per cent compared to 2013). Profit before tax amounted to EUR 101.4 million in French GAAP (+31 per cent compared to 2013).							

Own investments
(in thousands of euros)

Société Française et Suisse (SFS)	**8,337**	10,471	**8,329**	10,461	**(119)**	**(22)**	**100.0**	100.0
	In 2014, Société Française et Suisse realised a loss of EUR -119,411 compared to a loss of EUR -22,381 in 2013. The 2014 result is mainly due to the negative impact of: – the windin-up of Bianca Finance ; – the provision on a Tunisian account held by SFS.							
Valeurs Mobilières Elysées (Formerly Nobel)	**126,586**	172,986	**113,674**	161,185	**13,574**	9,380	**100.0**	100.0
	Valeurs Mobilières Elysées is a subsidiary in which are registered investments in principal of the HSBC Group in France. These investments include listed midcaps and Private Equity funds. The HSBC Group having decided in 2009 not to make any more investments in listed midcap shares Valeurs Mobilières Elysées manages a portfolio of listed shares gradually declining. No new Private Equity investments will be booked in Valeurs Mobilières Elysées and in consequence this portfolio will be also gradually declining. The total assets of the Private Equity and listed securities totalised EUR106 million in January 2014 and account for only EUR 75 million at the end of December 2014. Capital gains realised amount to EUR 9.81 million on the funds and EUR 6.28 million on the listed values.							

* *Before net profit appropriation.*

Investment policy

2009

- Subscription by HSBC France to capital increase made by HSBC Financial Products (France).
  Cost: EUR 75 million.
- Disposal by HSBC France of its participation in Visa.
  Proceeds: EUR 2.8 million.
- Disposal of Swiss Life shares by SFS.
  Proceeds: EUR 13.6 million.

2010

- Disposal by HSBC France of its fund depositary and custodial activities and its subsidiary HSBC Securities Services (France).
  Proceeds: EUR 8 million.
- Disposal by HSBC France of its participation in Servair.
  Proceeds: EUR 3.3 million.
- Capital decrease of Nobel.
  Proceeds: EUR 46.9 million.

2011

- Acquisition by HSBC France of 5.26 per cent of Citizen Capital.
  Cost: EUR 1 million.
- Disposal by Sinopia Asset Management, a wholly-owned subsidiary of HSBC France, of 100 per cent of Sinopia Asset Management (Asia Pacific) Limited to HSBC Global Asset Management (Hong Kong) Limited.
  Proceeds: EUR 17.5 million.
- Disposal by Sinopia Asset Management, a wholly-owned subsidiary of HSBC France, of 100 per cent of Sinopia Asset Management (UK) Limited to HSBC Global Asset Management (UK) Limited.
  Proceeds: EUR 9.7 million.
- Subscription by HSBC France to capital increase made by HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG.
  Cost: EUR 145 million.
- Subscription by HSBC France to two capital increases made by HSBC Trinkaus Gesellschaft für Bankbeteiligungen oHG.
  Cost: EUR 135 million and EUR 35 million.
- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 20 million.
- Capital decrease of Charterhouse Management Services Limited.
  Proceeds: GBP 15 million.

2012

- Subscription by HSBC France to capital increase made by HSBC Factoring (France).
  Cost: EUR 34 million.
- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 6.7 million.
- Capital decrease of SAF Palissandre.
  Proceeds: EUR 458.4 million.
- Increase by HSBC France of its participation in Oséo SA capital.
  Cost: EUR 1.3 million.

2013

- Subscription by HSBC France to capital increase made by HSBC SFH (France).
  Cost: EUR 58.5 million.
- Acquisition by HSBC France of 100 per cent of HSBC Assurances Vie (France) from HSBC Bank plc Paris Branch
  Cost: EUR 514 million.

2014

- Subscription by HSBC Leasing (France), a wholly-owned subsidiary of HSBC France to capital increase made by Beau Soleil Limited Partnership.
  Cost: EUR 22.1 million.
- Capital decrease of Valeurs Mobilières Elysées.
  Proceeds: EUR 116.2 million.
- Capital decrease of Société de Financement de l’Economie Française.
  Proceeds: EUR 4.7 million.
- Capital decreases of HSBC Trinkaus Gesellschaft für Kapitalmarketinvestments oHG, owned up to 90 per cent by Société Financière et Mobilière, a wholly-owned subsidiary of HSBC France.
  Proceeds: EUR 299.7 million.

Other legal documents relating to the Annual General Meeting to be held on 9 May 2014

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

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

Agreements entered into in 2014

No agreement subject to the provisions of article L. 225-38 of the French Commercial Code was entered into in 2014.

Agreements entered into in prior years and still in force and effect during 2014

Three agreements entered into in 2001 by HSBC France and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2014. These were a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities and a group tax relief agreement.

The agreement entered into in 2003 with HSBC Bank plc, regarding the invoicing of services covering market activities of the HSBC France group, remained in full force and effect during 2014.

The agreements entered into in 2005 with HSBC Holdings plc and HSBC Bank plc, regarding services provided by their central departments, also remained in full force and effect during 2014.

The “Group Software” agreement entered into in 2006 with HSBC Holdings plc, HSBC France and other companies of the HSBC Group, remained in full force and effect during 2014 regarding the share of the IT development expenses engaged by the HSBC Group.

The agreement renewed in 2007 between HSBC Holdings plc and HSBC France, giving HSBC France and its subsidiaries free use of the HSBC brand, remained in full force and effect during 2014.

The agreement entered into in 2009, and confirming decisions previously adopted by the Board of Directors, concerning the supplementary defined benefit pension scheme for Senior Executives of HSBC France, remained in full force and effect during 2014.

The agreement entered into in 2009 with HSBC Global Asset Management (France), regarding the delegation of financial management of asset management mandates allocated by clients of the HSBC France network to HSBC Global Asset Management (France), came into effect on 1 January 2010 and remained in full force and effect during 2014.

The agreement entered into in 2012 with Mr Christophe de Backer, setting out the terms and conditions regarding the resignation of Mr de Backer from his position as Chief Executive Officer of HSBC France, remained in full force and effect during 2014, regarding the retention of the benefit of unvested shares and stock-options not yet exercised at his resignation date.

Statutory Auditors'report on regulated agreements and commitments

This is a free translation into English of a report issued in French and provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2014

To the shareholders,

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

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

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

We performed those procedures which we considered necessary to comply with professional guidance issued by the National Auditing body ("*Compagnie nationale des commissaires aux comptes*") relating to this type of engagement. Those procedures consisted in verifying the consistency of the information we were provided with the underlying documents.

I - Agreements and commitments submitted for approval by the General Meeting of Shareholders

Agreements and commitments allowed during the fiscal year

We hereby inform you that we have been advised of no agreement and commitment authorised during the last fiscal year to be approved by the General Meeting of the Shareholders, in accordance with the article L. 225-38 of the French Commercial Code ("*Code de commerce*").

II - Agreements and commitments already approved by the General Meeting of Shareholders

Continuing agreements and commitments which were entered into the prior years

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

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

The agreement, adopted in 2009, confirmed the decisions previously adopted by the Board of Directors concerning the updating of the rules governing the supplementary defined benefit pension scheme for four Senior Executives of CCF, subsequently HSBC France, as well as the payment of these supplementary pensions to Charles-Henri Filippi and Gilles Denoyel.

With respect to this agreement, an additional provision for pension commitments was recorded in HSBC France accounts at 31 December 2014 for EUR 0.5 million.

With Mr Christophe de Backer

The agreement, approved on 10 January 2012, establishes the terms and conditions of Mr de Backer's resignation as Chief Executive Officer of HSBC France. It states, in particular, that in accordance with the Group's policies, Mr de Backer will not receive any bonuses for the year 2011 and will lose the supplementary defined benefit pension scheme for Senior Executive of HSBC France.

Furthermore, this agreement states that Mr de Backer preserves his shares and stock options not vested at the time of his resignation, as long as he does not, for one year from the date of his resignation, solicit any HSBC France Private Banking customers, as well as any individual occupying a critical position within HSBC France.

Other legal documents relating to the Annual General Meeting to be held on 23 April 2015 (continued)

With HSBC Holdings plc

- Head-office costs agreement: services provided by central departments of HSBC Holdings plc are invoiced to HSBC France with respect to the agreement settled in 2005. With respect to this agreement, the invoices represented a charge of GBP 13 million in 2014.
- "Group Software" agreement: HSBC Holdings plc invoices the expenses engaged by the Group regarding IT developments, in accordance with the agreement entered into in 2006. With respect to this agreement, a charge of USD 25 million was recorded in 2014.
- Agreement renewed in 2007 and giving HSBC France and its subsidiaries the free use of the HSBC brand.

With HSBC Bank plc

- Head-office costs agreement: services provided by central departments of HSBC Bank plc are invoiced to HSBC France with respect to the agreement settled in 2005. This agreement had no financial impact in 2014.

  Service level agreement for all market activities of HSBC France group: HSBC Bank plc invoices to HSBC France services covering all the market activities in accordance with the agreement settled in 2003. This agreement had no financial impact in 2014.

With HSBC Bank plc Paris Branch

Three agreements have been entered into during 2001 by HSBC France and HSBC Bank plc Paris Branch and remained in full force and effect during 2014:

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

  With respect to these two agreements, the income recorded for 2014 amounted to EUR 14.7 million;
- tax integration agreement between HSBC Bank plc Paris Branch and HSBC France.

  With respect to this agreement, a tax income of EUR 33.3 million has been recorded in 2014.

With HSBC Global Asset Management (France)

Agreement approved in 2009 and effective from 1 January 2010 regarding the delegation to HSBC Global Asset Management (France) of financial management of asset management mandates allocated by clients of the HSBC France network. With respect to this agreement, a charge of EUR 3.6 million was recorded in 2014.

Paris-La Défense and Paris, on 27 February 2015

KPMG Audit FS II	BDO France – Léger & Associés
Pascal Brouard	Fabrice Chaffois
Partner	*Partner*

Proposed resolutions to the Ordinary General Meeting

First resolution
Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2014, and the Chairman's and the Statutory Auditors' reports on corporate governance, internal control and risk management procedures, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

Second resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby approve the following proposed distribution of net profit for the year:

Net profit for the year	EUR393,117,648.00
Plus retained profits	EUR3,357,913,364.26
Total sum available for distribution	EUR3,751,031,012.26

To be distributed as follows:

Dividend of EUR2.23 per share to be paid	EUR150,386,354.21
Retained earnings	EUR3,600,644,658.05

The dividend will be payable on 23 April 2015.

Dividend paid is eligible for the tax deduction referred to in article 158 paragraph 3.2 of the General Tax Code.

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows

Year	Net dividend per share
2011	EUR1.75
2012	EUR3.56
2013	EUR1.78

Dividends paid in respect of the three previous years are eligible for the tax deduction referred to in article 158 paragraph 3.2 of the General Tax Code.

Third resolution
Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2014, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fourth resolution
Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in article L. 225-40 of said Code.

Fifth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby ratify the Board's co-optation on 20 January 2015 of Mr Andrew Wild to replace Mr Peter Shawyer, who has resigned, for the remainder of the term of office of his predecessor, that is until the conclusion of the Annual General Meeting held to adopt the financial statements for the year ending 31 December 2015.

Sixth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mrs Anne Méaux, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2017.

Seventh resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Philippe Pontet, who is retiring by rotation, as Director for a further term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2017.

Eighth resolution
Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby elect Mrs Carola Gräfin Von Schmettow as Director, for a term of three years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2017, in addition to the Directors currently in office.

Ninth resolution
Having heard and considered the report of the Directors, and voting under the quorum and majority conditions required to transact ordinary business, the shareholders duly note the resignation of KPMG Audit FS II as Statutory Auditor and of KPMG Audit FS I as alternate, and hereby appoint:

– PricewaterhouseCoopers Audit as Statutory Auditor,
– Mr Jean-Baptiste Deschryver as alternate,

in their place for the remainder of their predecessor's term of office, that is for a period of three years until the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2017.

Other legal documents relating to the Annual General Meeting to be held on 23 April 2015 (continued)

Tenth resolution
Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby issue a favourable opinion on the components of compensation due or awarded to Mr Jean Beunardeau, Chief Executive Officer, in respect of the year ended 31 December 2014, as described in the Registration Document 2014 pages 33 to 35.

Eleventh resolution
Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby issue a favourable opinion on the components of compensation due or awarded to Mr Gilles Denoyel, Deputy Chief Executive Officer, in respect of the year ended 31 December 2014, as described in the Registration Document 2014 pages 33 to 35.

Twelfth resolution
Voting under the quorum and majority conditions to transact ordinary business, in accordance with article L. 511-73 of the French Monetary and Financial Code, the shareholders hereby issue a favourable opinion on the aggregate amount of compensation of all kinds paid in 2014 to executive members and professionals having a significant impact on risks, which amounts to EUR46,390,607.

Thirteenth resolution
Voting under the quorum and majority conditions required to transact special business, the shareholders hereby authorise the Board of Directors to increase the share capital on one or more occasions at the time or times it deems appropriate up to a maximum amount of one hundred million euros, it being stipulated that this sum does not include capital increases made in respect of scrip dividend payments or upon exercise of stock options by employees.

Should the Board of Directors decide to use this authority, it may implement the capital increase at its discretion either by capitalising earnings, reserves or share premiums by means of an increase in the nominal value of existing shares or by means of a bonus issue of new shares identical in all respects to the existing shares, or by issuing new shares for cash or by way of a set-off, with pre-emptive rights in favour of existing shareholders, or by a combination of both procedures either successively or simultaneously.

In the event of a capital increase by issuing new shares for cash, the Board of Directors is specifically authorised to:

1. give those shareholders who applied for a greater number of shares than their entitlement as of right preference over any securities not taken up under the shareholders' pre-emptive rights, scaled back in the event that applications exceed the number of shares available;
2. limit the capital increase to the amount of applications received, provided that such amount represents at least three quarters of the initial proposed capital increase.

The shareholders hereby empower the Board of Directors to complete the capital increase or increases, if it deems appropriate, to fix the terms and conditions thereof and notably the issue price of the shares, the dividend entitlement date, which may be retrospective, and the opening and closing dates for applications, to officially record the capital increase and alter the Articles of Association accordingly, and, more generally, to take all measures and fulfil all formalities required to complete the operation.

This authority is valid for a period of 26 months with effect from the date of this meeting. It cancels and supersedes the authority granted at the Annual General Meeting held on 30 April 2013.

Fourteenth resolution
Voting under the quorum and majority conditions to transact special business, and having heard and considered the report of the Directors and the special report of the Statutory Auditors, and in accordance with the provisions of Article L. 225-129-6, indent 1 of the French Commercial Code, the shareholders hereby authorise the Board of Directors to increase the share capital, in one or several steps at its sole discretion, by issuing shares to be subscribed in cash reserved for participants in the company's employee share ownership plan in accordance with the provisions of Article L. 3332-18 of the French Labour Code.

The shareholders set the maximum increase in the share capital at EUR 10 million.

The shareholders expressly renounce their pre-emptive subscription right with respect to new shares issued for the benefit of participants in the company's employee share ownership plan.

This authority shall extend for two years from the date of this General Meeting.

The shareholders grant full powers to the Board of Directors to decide all terms and conditions of the issuance transactions to be made, in particular the issue price of the new shares. The shareholders also grant the Board full powers to recognise the capital increase or increases effected under this authority, to amend the articles of association accordingly and generally to do what is necessary.

Fifteenth resolution
Having heard and considered the report of the Directors, and voting under the quorum and majority conditions required to transact special business, the shareholders hereby decide to harmonise the company's articles of association with the requirements of Ordinance n°2014-863 of 31 July 2014 on company law and Decree n°2014-1466 of 8 December 2014, which amended the date and the conditions for establishing the list of persons entitled to attend to the meetings of shareholders and bondholders of commercial companies.

Shareholders therefore decide to make the following amendments to articles 18 and 22 of the articles of association:

ARTICLE 18 – REGULATED AGREEMENTS

The last paragraph of this article is amended as follows:

“The provisions above are not applicable either to agreements bearing on current business concluded under normal conditions, nor to agreements between two companies, one of which holds, directly or indirectly, all of the capital of the other, if any net of minimum number of shares required to satisfy the requirements of article 1832 of the Civil Code or articles L. 225-1 and L. 226-1 of the Commercial Code.”

ARTICLE 22 – ADMITTANCE TO GENERAL MEETINGS

The first paragraph of this article is amended as follows:

“Every shareholder, regardless of the number of shares that he owns, has the right to attend the general meetings and participate in the deliberations thereof, personally or by proxy, once his shares are fully paid and have been registered in his name not later than midnight, Paris time, of the second business day preceding the general meeting. However, the person responsible for convening the general meeting may choose to reduce this time limit if he deems it useful to do so.”

Sixteenth resolution

Voting under the quorum and majority conditions to transact ordinary and special business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

Information on HSBC France and its share capital

Information on the company

Name
HSBC France.
New name of CCF since 1 November 2005.

Commercial name
HSBC since 1 November 2005 and, for the Private Banking business, HSBC Private Bank since 31 October 2011.

Date of incorporation
1894.

Registered office
103 avenue des Champs-Elysées – 75008 Paris – France.

Legal Form
Société Anonyme incorporated under the laws of France, governed notably by the French Commercial Code.
The company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

Term
The company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate purpose (article 3 of the Articles of Association of HSBC France)
The company's corporate purpose is the transaction in all countries of any and all banking, finance, lending, guarantee, trading, brokerage or fee-earning business together with the provision of any and all investment services and related services within the meaning of articles L. 321-1 and L. 321-2 of the Monetary and Financial Code, and more generally, to conduct within the limits permitted by law any and all commercial, industrial or agricultural, securities or real estate, financial or other operations as well as to provide any and all services directly or indirectly connected with or which may facilitate the achievement of the foregoing object.

Trade and companies Register and APE code
775 670 284 RCS Paris – APE 6419Z.

Legal and regulatory framework
Subject to the laws and regulations relating to credit institutions, including articles in the French Monetary and Financial Code applicable to them, the company is governed by commercial law, including articles L. 210-1 and following of the French Commercial Code and its Articles of Association.

HSBC France is a credit institution licensed as a bank. As such, the company may conduct all banking operations. It is, moreover, authorised to perform any services or related investment mentioned in articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, with the exception of operating a multilateral trading facility. In its capacity as provider of investment services, it is subject to the regulations applicable to them under the supervision of the *Autorité des marchés financiers*. It is particularly subject to compliance with a number of prudential rules and controls by the *Autorité de contrôle prudentiel et de résolution* and the European Central Bank. Its Senior Management and all the people it employs are bound by professional secrecy, violation of which is punishable by law. It is also an insurance broker.

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

HSBC France – 103 avenue des Champs-Elysées, 75419 Paris Cedex 08, France.

Financial year
From 1 January to 31 December.

Distribution of profits
A minimum of 5 per cent of the net profit for the year, less any prior year losses, is transferred to the legal reserve until such time as it has reached one tenth of the company's share capital and at any time after that should it fall back below the minimum requirement.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the company's share capital, no distribution may be made if total shareholders'funds are, or would as a result, become lower than the amount of the company's share capital plus any non-distributable reserves.

By way of derogation to the provisions of this article, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

Form of shares
Shares have to be registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights
Each fully paid up share entitles the holder to one vote.

Transfer of shares
The transfer of shares takes place by way of a transfer from one account to another.

There are no restrictions on disposals of shares or negotiable securities giving access to the share capital in cases of inheritance or liquidation of matrimonial property, or on disposals to a spouse, descendant or ascendant.

Similarly, there are no restrictions on disposals of shares to natural or legal persons appointed as Directors, subject to the number of shares provided by article 11 of these Articles of Association.

Any other disposals or transfers of shares or negotiable securities giving access to the capital, including between shareholders, whether free of charge or for valuable consideration, whether the said disposals or transfers take place by way of donation, exchange, disposal, capital contribution, merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be made by the Board of Directors, by a majority of the Directors present or represented. The transferor shall be entitled to vote, if he is a Director. The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by article 1843-4 of the Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it to the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by article 1843-4 of the Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by article 1843-4 of the Civil Code.

Custodian and financial service
HSBC France.

Information on HSBC France and its share capital (continued)

History of the company

1894: The Banque Suisse et Française (BSF) is founded. It will become the Crédit Commercial de France.

1965: First CCF advertising campaign.

CCF keeps growing, particularly on an international level. Its presence outside of France is strengthened with the opening of branches, subsidiaries and representative offices abroad.

From 1982 to 1987, CCF creates a European investment bank and the acquisition of interests in Union de Banque à Paris, Européenne de Banque and Banque Chaix is the basis of the future CCF group.

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1990: Crédit Commercial du Sud-Ouest is created with the CCF branches located in Gironde *département*.

1992: CCF acquires Banque Marze in Ardèche *département*.

1993: CCF acquires Banque de Savoie.

1994: Centenary of CCF.

CCF develops its activities in Investment Banking, International Private Banking, Asset Management, and French retail banking with the acquisition of other regional banks.

During the 90's, Asset Management activity becomes the third main activity in CCF group.

1995: CCF acquires Banque Dupuy, de Parseval.

1998: Société Marseillaise de Crédit joins CCF group.

1999: CCF acquires 100 per cent of Banque de Picardie.

April 2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

August 2000: CCF acquires Banque Pelletier.

2001: CCF acquires Banque Hervet.

June 2002: Crédit Commercial de France changes its legal name to CCF.

November 2005: CCF becomes HSBC France and certain of its subsidiaries change their legal name and adopt the HSBC brand. HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie constitute the new HSBC network.

July 2008: Disposal by HSBC France of its regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest).

July 2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

October 2011: Merger of HSBC Private Bank France with HSBC France.

December 2013: HSBC France acquires HSBC Assurances Vie (France).

Material contracts

HSBC France currently has no material contracts, other than those concluded as part of the normal course of its business, that gives any member of the Group a right or obligation having a material impact on the issuer's ability to fulfil its obligations to holders of issued securities.

Information on the share capital

At 31 December 2014, the share capital amounted to EUR 337,189,135 divided into 67,437,827 fully paid up shares, each with a nominal value of EUR 5.

Authorities to increase the share capital

	With pre-emptive rights
Issue of shares for cash or by capitalising reserves	
Date of authority	30 April 2013
Expiry date	30 June 2015
Maximum nominal amount	EUR100 million
Used amount	EUR0

The renewal of this authority for EUR 100 million until 23 June 2017 will be proposed to the Combined General Meeting to be held on 23 April 2015.

Movements in share capital

	Number of shares	Share capital in euros	Share premium in euros
At 1 January 2014	**67,437,827**	**337,189,135**	**–**
Increase (Reduction) during the year	**–**	**–**	**–**
At 31 December 2014	**67,437,827**	**337,189,135**	**–**
At 1 January 2013	67,437,827	337,189,135	–
Increase (Reduction) during the year	–	–	–
At 31 December 2013	67,437,827	337,189,135	–
At 1 January 2012	67,437,827	337,189,135	–
Increase (Reduction) during the year	–	–	–
Au 31 décembre 2012	67,437,827	337,189,135	–
At 1 January 2011	67,437,820	337,189,100	–
Increase (Reduction) during the year	7[1]	35[1]	–
At 31 December 2011	67,437,827	337,189,135	–
At 1 January 2010	67,437,820	337,189,100	–
Increase (Reduction) during the year	–	–	–
At 31 December 2010	67,437,820	337,189,100	–

1 *Capital increase due to the approval by the Combined General Meeting held on 31 October 2011 of the merger of HSBC Private Bank France with HSBC France.*

Information on HSBC France and its share capital (continued)

Ownership of share capital and voting rights at 31 December 2014

HSBC Bank plc has owned 99.99 per cent of the share capital and voting rights since 31 October 2000. This percentage has not varied since then. HSBC Bank plc is a wholly-owned subsidiary of HSBC Holdings plc, a company quoted in London, Hong Kong, New York, Paris and Bermuda.

Dividend and payout policy

	2014	2013	2012	2011	2010
Number of shares at 31 December	**67,437,827**	67,437,827	67,437,827	67,437,827	67,437,820
Average number of shares outstanding during the year	**67,437,827**	67,437,827	67,437,827	67,437,822	67,437,820
EPS[1]	**EUR2.94**	EUR5.68	EUR4.75	EUR1.83	EUR6.73
Net dividend	**EUR2.23**	EUR1.78	EUR3.56	EUR1.75	EUR10.67
Exceptional dividend	**–**	–	–	–	–
Dividend + tax credit	**–**	–	–	–	–
Payout[2]	**75.9%**	31.3%	74.9%	95.6%	158.5%

1 *Calculated on the weighted average number of shares outstanding after deducting own shares held.*
2 *Dividend paid as a percentage of reported earnings.*

At the Annual General Meeting to be held on 23 April 2015, the Board will propose a net dividend of EUR 2.23 per EUR 5 nominal share.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Recent developments and outlook

Post-balance sheet events

New products and services are frequently offered to the customers of the HSBC Group in France. Information is available on the group's websites, and particularly in the press releases that can be viewed on the www.hsbc.fr website.

There has been no significant change affecting the issuer's or its subsidiaries' financial or sales situation since 31 December 2014, the date of the last audited and published financial statements.

Main post-balance sheet events

Following the appointment of Gilles Denoyel as Président International Institutional Relations, Europe of the HSBC Group, Andrew Wild has been appointed as Deputy Chief Executive Officer and Deputy to the CEO and Emmanuel Rémy as Chief Risk Officer, as from 1 March 2015.

Outlook

There has been no significant deterioration affecting the issuer's or its subsidiaries' outlook since 31 December 2014, the date of the last audited and published financial statements.

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

– driving up business and increasing dividends through robust international growth and leveraging connectivity within the HSBC Group;
– investing strategically while minimising risks, with the implementation of Global Standards;
– simplifying processes and procedures by optimising the distribution model within Retail Banking while improving the quality of customer service.

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

Persons responsible for the Registration Document and for auditing the financial statements

Person responsible for the Registration Document

Mr Jean Beunardeau, Chief Executive Officer.

Statement by the person responsible for the Registration Document

I declare, after taking all reasonable measures for this purpose and to the best of my knowledge, that the information contained in this Registration Document is in accordance with the facts and that it makes no omission likely to affect its meaning.

I declare, to the best of my knowledge, that the accounts have been prepared in accordance with applicable accounting standards and are a fair reflection of the assets, liabilities, financial position and profit or loss of the company and all the undertakings included in the consolidation scope, and that the Management Report on pages 2 to 11 and on page 246 presents a fair view of the company's business, results and financial position and that of all the undertakings included in the consolidation scope, as well as a description of the main risks and uncertainties to which they are exposed.

I have received a completion letter from the Auditors stating that they have audited the information contained in this Document about the financial position and accounts and that they have read this Document in its entirety.

The historical financial data presented in this Document has been discussed in the Statutory Auditors' reports on the parent company financial statements and on the consolidated financial statements found on pages 278 to 279 and on pages 233 to 234, and respectively on pages 251 to 252 and 207 to 208 of the Registration Document 2013 filed with the AMF under the reference number D14-0103.

The Statutory Auditors' report on the 2013 consolidated financial statements, on pages 207 and 208 of the Registration Document 2013 and on the 2014 financial statements, on pages 233 and 234 of this Registration Document, contain a remark.

The Statutory Auditors' report on the 2014 parent company financial statements, on pages 278 and 279 of this Registration Document, contains a remark.

Paris, 2 March 2015

Jean Beunardeau, CEO

Persons responsible for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
KPMG Audit FS II[1] Represented by Pascal Brouard[4] 3 cours du Triangle 92939 Paris-La Défense Cedex	2012[2]	–	2018[3]
BDO France – Léger & Associés[5] Represented by Fabrice Chaffois[6] 113 rue de l'Université 75007 Paris	2007	2012	2018
Alternates			
KPMG Audit FS I[1] Represented by Isabelle Goalec[7] 3 cours du Triangle 92939 Paris-La Défense Cedex	2012	–	2018[3]
François Allain[1] 2 rue Hélène Boucher 78286 Guyancourt Cedex	2007	2012	2018

1 *Member of the* Compagnie Régionale des Commissaires aux comptes *of Versailles.*
2 *First appointment of KPMG: 2001.*
3 *Following the resignations of KPMG Audit FS II from its function of incumbent Statutory Auditor and KPMG Audit FS II from its function of alternate Statutory Auditor, it will be proposed to the Combined General Meeting to be held on 23 April 2015 to appoint PricewaterhouseCoopers Audit as incumbent Statutory Auditor and Jean-Baptiste Deschryver as alternate Statutory Auditor, for the remainder of their predecessor's term of office.*
4 *KPMG represented by Pascal Brouard as of financial year 2009.*
5 *Member of the* Compagnie Régionale des Commissaires aux comptes *of Paris.*
6 *BDO represented by Fabrice Chaffois as of financial year 2013.*
7 *Nominated in 2014 in replacement of Jean-Luc Decornoy.*

Statutory Auditors'fees paid in 2014 within the HSBC France group are available in Note 43 to the consolidated financial statements on page 231.

Cross-reference table

This cross-reference table refers to the main headings required by the European Regulation 809/2004 (Annex XI) implementing the directive known as "Prospectus".

According to article 28 of the European Regulation 809/2004, are included by reference in this Registration Document:

– the consolidated financial statements for the year ended 31 December 2013 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 103 to 206 and 207 to 208 of the Registration Document filed with the AMF on 3 March 2014 under reference number D14-0103; and
– the parent company financial statements for the year ended 31 December 2013 and the Statutory Auditors' report on the parent company financial statements, presented on pages 209 to 250 and 251 to 252 of the Registration Document filed with the AMF on 3 March 2014 under reference number D14-0103.

This Registration Document includes the annual financial report:

These documents are available on the website www.hsbc.fr and on the AMF's website www.amf-france.org.

Network of offices

HSBC NETWORK IN FRANCE

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103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40
Website: www.hsbc.fr

HSBC FRANCE SUBSIDIARIES

DISTRIBUTION

HSBC Factoring (France)
103 avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 72 00

ASSET MANAGEMENT

HSBC Global Asset Management (France)
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Mail address: 75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

HSBC Epargne Entreprise (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 27 17

HSBC REIM (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 39 44

ASSURANCE

HSBC Assurances Vie (France)
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 41 02 40 40

OTHER LOCATIONS OF THE HSBC GROUP IN FRANCE

HSBC Bank plc Paris Branch
15 rue Vernet
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40

OTHER LOCATIONS OF THE HSBC FRANCE GROUP

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28020 Madrid
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Piazzeta Bossi, 1
20121 Milan
Telephone: 39 02 72 437 496

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HSBC Global Asset Management (France), Swedish branch
Birger Jarlsgatan 25
SE-111 45 Stockholm
Telephone: 46 8 4545435

SWITZERLAND
HSBC Global Asset Management (Switzerland) AG
Bederstrasse 49
CH-8027 Zürich
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